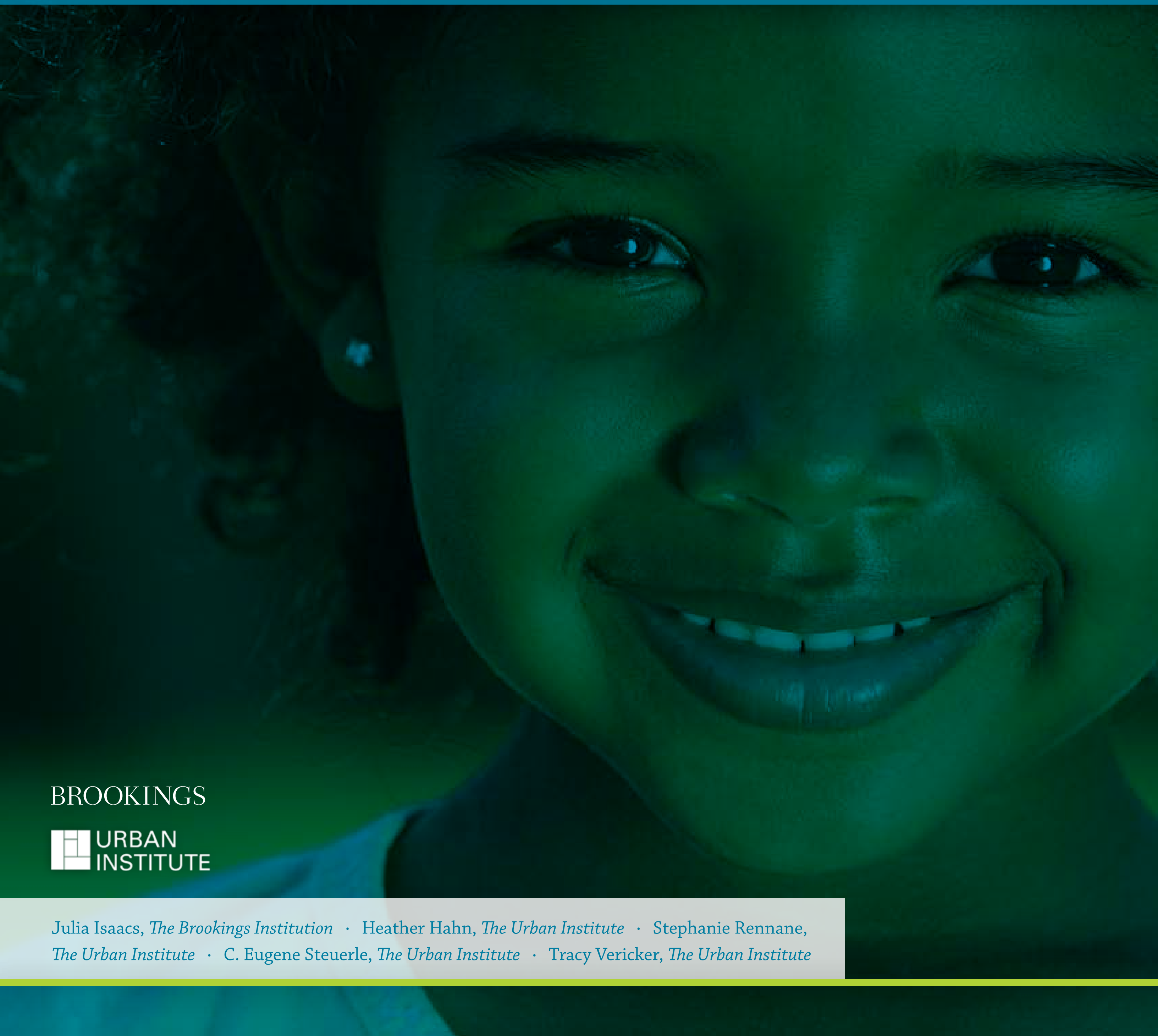
kids' share 2011

Report on Federal Expenditures on Children Through 2010



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executive summary

This fifth annual *Kids' Share* report marks a milestone in the analysis of federal expenditures on children because available data now span 50 years, from 1960 to 2010. During the past half-century, the size and composition of expenditures on children has changed considerably. Back in 1960, the largest federal contributions to families due to the presence of children came from the dependent exemption, Social Security, and education. Fifty years later, the dependent exemption has much less relative value, and Medicaid, the earned income tax credit, and the child tax credit have become the three largest federal expenditures on children.

Federal expenditures on children in 2010, the most recent year of data, were affected by the immediate crisis of the recession of the late 2000s as well as by long-term trends. In response to the recession and an unemployment rate that averaged 9.7 percent, the federal government increased its spending on children. The children's share of the federal budget was 11 percent in 2010, slightly higher than in 2009 and considerably higher than it was 50 years ago. This increase is temporary, however, with the children's share of the budget expected to shrink to less than 8 percent by the end of the next decade.

Absent reform of current law, federal spending on children is projected to fall over the next several years, whether measured in real dollars, as a share of the federal budget, or as a share of the economy. Between 2010 and 2015, for example, outlays on children are projected to fall from $374 billion to $339 billion, a decline of 9 percent. As the temporary boost in spending under the American Recovery and Reinvestment Act of 2009 (ARRA) comes to an end, federal spending on education and certain other programs for children will fall dramatically.

By 2020, the share of the economy devoted to federal investments in children is projected to drop to below 2 percent of the gross domestic product (GDP), falling below 2010 levels and 2005 levels. The federal budget as a whole is not shrinking, however, largely because of the growing costs of health and retirement programs. Spending on Medicare, Medicaid, and Social Security (excluding any benefits going to children) is projected to increase from 9.1 to 10.2 percent of GDP by 2020. In addition, interest payments on the growing national debt are expected to rise dramatically, more than doubling from 1.4 percent of GDP in 2010 to 3.3 percent in 2020. Under current policies, the federal government is projected to spend more on interest payments than on children, beginning in 2014.

While this report primarily focuses on federal expenditures, it also provides information about spending by states and localities, which contribute as much as two-thirds of total spending on children. State and local budgets have been hard hit by the recession, and much of the temporary increase in federal spending under ARRA was designed to substitute for or cushion state and local spending cuts. Final state and local spending data for 2010 are not yet available; however, evidence is emerging that the rise in federal spending was not enough to maintain spending on K–12 education, the largest component of state and local services to children, at pre-recession levels. Thus, it seems likely, but not certain, that publicly funded services to children declined in 2010. Regardless, with federal funding on children projected to decline and states still struggling to recover from the recession, the likelihood of cuts in services to children in 2011 and 2012 is quite high.

REPORT METHODS

Calculating government expenditures on children is a complicated task involving many decisions, definitions, and assumptions about how federal dollars are spent. The first task is to select programs for inclusion. Only programs directly benefiting children or benefiting households because of the presence of children are counted. Next, expenditure data are collected for each program, using outlay estimates from the *Appendix to the Budget of the U.S. Government, Fiscal Year 2012* (and past years) as the primary source of expenditure data. Many analyses also include information on tax expenditures, gathered from the *Analytical Perspectives* volume of the budget. Significant efforts are put into estimating the portions of programs that go just to children.

The resulting database of expenditures extends from 1960 to 2010, with projections of current policy through 2020. The report builds off this database and is organized in three major sections: current expenditures, historical trends, and future projections.

CURRENT EXPENDITURES ON CHILDREN

Federal outlays totaled $3.5 trillion in 2010, of which 11 percent, or $374 billion, was devoted to children. In addition to direct outlays on children, the federal government provides tax breaks to families with children through the dependent exemption, the child tax credit, and other tax provisions. Tax expenditures on children totaled $71 billion in 2010, which is less than 7 percent of the more than $1 trillion in individual and corporate tax expenditures identified by the Office of Management and Budget for that year. Summing the $374 billion in outlays and $71 billion in tax reductions results in a total of $445 billion in expenditures on children—approximately 10 percent of the sum of total outlays and total tax expenditures.

Ten programs and tax provisions account for nearly three-quarters (72 percent) of the $445 billion expenditures on children. Medicaid spent more on children than any other program: $74 billion in 2010. After Medicaid, the largest sources of expenditures on children are three tax provisions: the earned income tax credit, the child tax credit, and the dependent exemption. Although the next largest programs, the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) and Social Security, are not typically thought of as children's programs, they in fact provide children with significant resources ($35 billion and $21 billion, respectively). The last four programs in the top ten list include three education programs and the Child Nutrition program.

The American Recovery and Reinvestment Act had a particularly large impact on education outlays in 2010. ARRA investments in education increased federal education outlays on children by $27 billion in 2010 and accounted for 39 percent of all federal education spending. Federal funding for education will decline dramatically as ARRA funds run down over the next year or two, and these declines could combine with any simultaneous reductions in state and local spending.

Federal spending has constituted only about a third of total expenditures on children in recent years. In 2008, for example, federal spending on children was under $300 billion compared with $600 billion in state and local spending, with the lion's share of the latter invested in public education. While we do not have final state and local spending data for 2010, evidence is emerging that the rise in federal spending was not enough to maintain total K–12 education spending at pre-recession levels. That is, increased federal educational spending did not offset the cut in state and local spending. On the other hand, the enhanced federal funding for Medicaid, combined with the rise in the number of needy children, did expand total (federal/state) Medicaid spending on children.

Combining all spending on children at all levels, it seems possible, but not certain, that net public investments in children declined in 2010. With federal funding on children projected to decline and states still recovering from the recession, future cuts in services to children are likely.

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>
> 11%

FEDERAL SPENDING OVER 50 YEARS

The children's share of the federal budget was 11 percent in 2010, larger than in any previous year, partly a result of the temporary boost in spending during the economic recovery. Approximately 38 percent of the federal budget, or $1.3 trillion, was spent on the elderly and disabled portions of Social Security, Medicare, and Medicaid. Another 20 percent was spent on defense, 6 percent on interest payments on the debt, and 25 percent on all other government functions.

Defense spending relative to the size of the economy has declined dramatically over the past 50 years or so, with an uptick since 2002 because of wars in Iraq and Afghanistan. The multi-decade decline in defense funding has allowed domestic spending to increase without significant increases in total federal spending or taxes as a percentage of GDP for much of the 50-year period. Social Security, Medicare, and Medicaid spending (excluding any money allocated to children) has increased more than fourfold from 1960, from 2.0 to 9.1 percent of GDP.

Outlays on children also have grown, but from a very low base. They more than doubled between 1960 and 1980 (from 0.6 to 1.4 percent of GDP), following the introduction of food stamps, Medicaid, Education for the Disadvantaged/Title I, and other new federal programs. Spending on children increased slowly over the next 20 years, reaching 1.6 percent in 2000. Since then, expansions in Medicaid and the Children's Health Insurance Program (CHIP), growth in tax credits targeted to children, and recent increases in spending due to the recession and ARRA pushed children's spending up to a record level of 2.6 percent of GDP in 2010.

To get a sense of how spending on children ranks as a domestic priority, we calculate another measure, the kids' share of the domestic budget. This comprehensive measure excludes spending on defense and international programs, and it includes tax expenditures and outlays on children. By this measure, expenditures on children composed 20 percent of domestic expenditures in 1960 and have fallen since to 16 percent of the domestic budget in 2010. In contrast, spending on the nonchild portions of Social Security, Medicare, and Medicaid has more than doubled, increasing from 22 to 47 percent of domestic spending over the same period.

PROJECTIONS

As the temporary boost in spending under ARRA ends, federal spending on children is projected to fall, not just as a share of the budget or share of the economy, but also in real dollar levels. Absent legislative action, Congressional Budget Office (CBO) baseline projections suggest that federal outlays on children will fall by 9 percent between 2010 and 2015 (from $374 billion to $339 billion in inflation-adjusted dollars). Only once in the last half-century have outlays on children seen a similar decline, when they fell by 7 percent between 1980 and 1985. These projections do not incorporate the spending cuts enacted in spring 2011 nor any further proposals to reduce federal spending.

When extended to a 10-year horizon, federal outlays on children are projected to fall sharply as a percentage of the budget (from 11 to 8 percent) and as a share of the economy (from 2.6 to 1.9 percent of GDP), with absolute dollar levels also remaining below 2010 levels. Under these projections, the percentage of the economy allocated to federal investments in children will be lower in 2020 than it was in 2005. The sharpest drops expected over the next decade are in education programs and refundable tax credits.

These declines in spending on children occur under CBO baseline projections that assume that the federal budget shrinks slightly relative to the economy over the next five years, but then expands back over the next five years (moving from 24 percent of GDP in 2010 to 23 percent in 2015 and back to 24 percent in 2020). An initial drop from the peak levels of spending during the recession is overcome by long-term structural budgetary forces that are driving up spending. In contrast to the projected decline in spending on children, spending on health and retirement programs (most notably Medicare, Medicaid, and Social Security) is projected to rise steadily. This spending growth stems from several factors, including an increase in the share of the population that is elderly and steadily rising health care costs. Since these programs are mandatory, they automatically grow unabated unless current policy is changed.

The strong growth in the big three entitlement programs, Medicare, Medicaid, and Social Security, places upward pressure on total governmental outlays, which far outpace federal revenues in every year of the projection period. As the national debt continues to grow, interest payments are projected to rise dramatically, more than doubling from 1.4 percent of GDP in 2010 to 3.3 percent in 2020. Under current policies, spending on interest payments on the debt will exceed spending on children between 2014 and 2020 and by larger amounts each year.

In sum, the CBO baseline projects large increases in federal spending, with 2020 outlays exceeding current outlays by more than $1 trillion. However, none of this increase is scheduled for additional spending on children.

Ten-year projections are always uncertain, as policy does not stay constant. No one wants to spend two-fifths of the federal budget on interest payments on the debt, and policymakers are beginning to grapple with the challenging policy choices that must be made if the budget is to be brought under more control. Choices before the nation include controlling the rate of increase in health care costs, increasing taxes to pay for higher levels of spending, reforming entitlement spending for the elderly, and cutting spending significantly in the rest of the budget, including spending on children, to avoid a future of ever-higher budget deficits. Such efforts to reduce interest payments could free up resources for children in the long run, but in the intermediate period they are likely to put even further downward pressure on spending—including spending on children.

Investing in children remains essential for improving economic stability and growth. Any plans to curtail spending, increase taxes, or redesign programs to be more efficient will need to consider the long-term consequences for children—the next generation of leaders, workers, parents, and citizens.

introduction

This fifth annual *Kids' Share* report marks a milestone in the analysis of federal expenditures on children, because available data now span 50 years, from 1960 to 2010. This half-century of data provides an opportunity to view expenditures in 2010, the most recent year of data, in full historical context. Federal expenditures on children in 2010 were affected by both long-term trends and the immediate crisis of the recession of the late 2000s.

Unemployment averaged 9.7 percent during fiscal year 2010, with approximately 15 million Americans out of work each month of the fiscal year (October 2009 to September 2010). Nearly a third of the unemployed were parents with children, and the number of children with a parent seeking work rose to 8.1 million in December 2009, double what it had been two years earlier. Along with the rise in unemployment, child poverty increased from 19.0 percent in 2008 to 20.7 percent in 2009, with another increase of at least one percentage point expected for 2010.[1] How did federal spending on children change in response to the increased needs of children and families?

Along with the rise in unemployment, child poverty increased from 19.0 percent in 2008 to 20.7 percent in 2009, with another increase of at least one percentage point expected for 2010.

20.7%

A database on federal spending on children that was developed by researchers at the Urban Institute and the Brookings Institution was used to answer this question. This database tracks federal expenditures on children from 1960 through 2010 on more than 100 federal programs and tax provisions (including some former programs that no longer exist) and has served as the basis for a series of children's budget reports.[2] In addition to historical data, the database includes projections through 2020, built off Congressional Budget Office (CBO), Office of Management and Budget (OMB), and Urban-Brookings Tax Policy Center projections of taxes and spending under current policies.

As in past reports, this analysis encompasses reductions in taxes as well as direct governmental outlays from federal programs that serve families and children. As in last year's report, there is a special analysis of the year-to-year impact on children of the American Recovery and Reinvestment Act of 2009 (ARRA) and a supplemental analysis including state and local expenditures.

After an initial discussion of methodology, the report is organized in three major sections: present, past, and future. The first section focuses on current expenditures on children, including an analysis of federal expenditures in 2010 and total (federal/state/local) expenditures in recent years. The historical section traces changes in federal expenditures on children and other major items in the federal budget over fifty years, from 1960 to 2010. Our future projections extend from 2010 through 2020.

The *Kids' Share* reports, which focus on trends in spending and tax expenditures on children, leave several important questions unanswered. In particular, they do not analyze the efficiency, success, or worth of a particular program or spending level. Nor do the reports compare spending amounts to levels of need, and thus they do not say how many needs may still be unmet. For example, it is unclear how the expansion in federal funding under ARRA measures up against increased needs arising from the recession. More generally, the reports do not track the changes in funding observed between 1960 and 2010 against the many changes that have occurred in American society over the past half-century. Major trends include changes in family size and structure, maternal work, the size of the child poverty population and its demographic makeup, and changes in private-sector job benefits, including employer-provided health insurance. Measuring needs for services, the efficacy of programs in meeting needs, and how much need is unmet despite spending on children's programs is beyond the scope of the *Kids' Share* reports.

METHODS

Calculating government expenditures on children is a complicated task involving many decisions, definitions, and assumptions about how federal dollars are spent. Defining spending on children is a difficult undertaking that raises broad conceptual questions. When does childhood begin, and when does it end? What is spending on children compared with spending on their parents or the general population? Should expenditures include reductions in taxes as well as direct spending programs? Reasonable people may provide different answers to these questions. In this section, we outline how we address these and other issues as we undertake the following three main steps: (1) defining spending on children, (2) collecting expenditure data for programs that meet the definition, and (3) estimating the share of these expenditures that go to children. Further methodological details are provided in the companion publication to this report, *Data Appendix to Kids' Share 2011*.[3]

DEFINING AND IDENTIFYING PROGRAMS BENEFITING CHILDREN

In this analysis, a program must meet one of the following criteria to be included (as a whole or in part):

1. benefits or services are entirely for children (e.g., elementary and secondary education programs, foster care payments); this also includes programs where a portion provides benefits directly for children (e.g., Medicaid, Supplemental Security Income);
2. family benefit levels increase when children are included in the application for the benefit (e.g., SNAP/food stamps, low-rent public housing); or
3. children are necessary for a family to qualify for any benefits (e.g., TANF, the child tax credit, the dependent exemption).

Not all programs that provide benefits to families are included under our definition of spending on children. Excluded, for example, are unemployment compensation, the Making Work Pay tax credit, tax benefits for home ownership, and other benefits where the amount of the benefit the adult receives is not related to presence or number of children.[4] Further, this analysis does not include programs that provide benefits to the population at large (a significant share of whom are children), such as roads, communications, national parks, and environmental protection. In general, childhood is defined as extending from birth until a child's 19th birthday. As a result, both federal spending on college or postsecondary vocational training and prenatal spending through Medicaid or other programs are excluded (the latter largely because of data limitations). While attempting to apply these rules consistently across all programs, many programs have specific conditions requiring adaptations. All program-specific changes made to the methodology are detailed in the data appendix.

In reporting on expenditures on children, several key measures focus on federal *outlays* on children (e.g., the share of the federal budget spent on children, federal vs. state/local spending on children, and children vs. elderly outlays). However, our most comprehensive measure of federal expenditures on children includes *tax expenditures* (i.e., reduced tax liabilities as a result of the child tax credit, the dependent exemption, or other provisions in the tax code) as well as direct program outlays. Throughout the report, we note clearly where our analysis focuses on outlays only and where it broadens to include includes reductions in taxes. Even when the analysis is restricted to outlays, however, it includes the direct outlays related to the tax law, chiefly the portions of the earned income tax credit and child tax credit that are paid out (refunded) to certain families, as well as some outlays associated with tax credits for certain school bonds. Note that this last division is undertaken to achieve consistency with budget accounting that divides tax subsidies between outlays for the refundable portion and tax expenditures for the nonrefundable portion.

COLLECTING EXPENDITURE DATA

Once we have determined which programs to include, we collect expenditure data for each program. We use outlay estimates from the *Appendix to the Budget of the U.S. Government, Fiscal Year 2012* (and past years) as the primary source for expenditure data. For tax expenditures, we turn to the *Analytical Perspectives* volume of the budget. Most historical expenditure data comes from earlier budget appendices or from information obtained directly from the agency. For smaller programs not listed in the appendix, we contact representatives at various government agencies directly to obtain expenditure information. All budget numbers presented in this report represent fiscal years and are expressed in 2010 dollars, unless otherwise noted. The *Kids' Share* database includes estimates of federal expenditures in five-year intervals from 1960 to 1995 and annually from 1996 to 2010.

Additionally, the *Kids' Share 2011* report includes estimates of state and local spending from 1998 to 2008. We do not estimate state and local spending ourselves, but draw directly from the Rockefeller Institute State Funding Database. Consultations between the authors of this report and researchers at the Rockefeller Institute have increased consistency between the two sets of estimates. However, differences remain.[5]

CALCULATING THE SHARE OF PROGRAM SPENDING ON CHILDREN

Some programs devote all their resources to children, while other programs allocate funds to children as well as older age groups. As a result, we calculate the share of program resources dedicated to children in one of the following ways:

- For programs that serve children only, we assume 100 percent of program expenditures (benefits and associated administrative costs) go to children.
- For programs that provide direct services to children and adults, we calculate the percentage of program expenditures that go to children (e.g., Medicaid).
- For programs that provide benefits only to families with children, and if the benefit size is determined by the number of children, we assume 100 percent of program expenditures go to children (e.g., child tax credit, dependent exemption).
- For other programs where benefits are provided to families without any delineation of parents' and children's shares, we generally estimate a children's share based on the number of children and adults in the family and assuming equal benefits per capita (e.g., TANF, SNAP, housing).

We put significant effort into estimating the portions of large programs, such as the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps), Medicaid, or Supplemental Security Income, that go just to children. For these calculations, the most frequently used data sources are unpublished tabulations of survey and administrative data generated by the authors or other researchers at the Urban Institute (including tabulations generated by the microsimulation Transfer Income Model) and reports from the agencies that administer the programs. In some cases, we contact federal agency staff directly to obtain program participation information if no report is publicly available. This method proves particularly useful for smaller programs. Figure 1 provides an overview of the general process for allocating benefits to children.

METHODS FOR PROJECTIONS

Our projections for children's spending in the future assume continuation of current law in some areas and continuation of current policy in others. The latter mainly involves programs that are scheduled to expire (discretionary or mandatory) but, because of continual reenactment, are not expected to expire. Except for the extension of certain tax provisions that are set to expire at the end of 2012, we do not assume enactment of any legislative proposals that were not law by January 2011. This means that our baseline projections do not incorporate any continuing resolutions adopted in 2011 or proposed changes in President Obama's fiscal year 2012 budget and in other legislative proposals.

The projection methodology differs depending on whether a program is mandatory (with spending governed by programmatic rules, such as Medicaid or Social Security), discretionary (with spending set by appropriations action annually), or a tax expenditure. While the *Appendix to the Budget of the U.S. Government* provides data on actual outlays in the current year and previous years, it does not provide ample information about projections of future spending by specific program. Therefore, to assess trends of spending on

FIGURE 1 General Rules for Allocating Program Expenditures to Children

Services delivered by third-party agency (not delivered to families or households)		Benefits delivered to families and households				
All services to children	Services to both children and adults	Individual benefits to both children and adults	Family or household benefits			
			Eligibility limited to families with children		Eligibility not limited to those with children	
			Benefit size dependent on number of children only	Benefit size dependent on number of children and number of adults	Benefit size dependent on presence or number of children	Benefit size unaffected by number of children
100% of expenditures	Share of expenditures	Share of expenditures	100% of expenditures	Share of expenditures	Share of expenditures	No expenditures
Elementary and secondary education, Head Start, child care, child welfare, juvenile justice, child support enforcement, immunization, etc.	Medicaid, SCHIP, MCHB, Social Services Block Grant, Community Services Block Grant; Job Corps, vocational and adult education, etc.	Social Security, SSI, Railroad Retirement, etc.	EITC[a], child tax credit, dependent exemption, employer-provided child care, etc.	TANF, etc.	SNAP/Food Stamps, veterans benefits, public housing, low-income home energy assistance, etc.	Unemployment benefits; workers compensation, Making Work Pay and other tax credits not tied to number of children, etc.

Note: The specific allocation procedures vary, depending on available data and type of benefit provided by specific programs. See the data appendix for further details, particularly on calculating the children's share of expenditures when benefits are shared between adults and children.
[a] Spending on childless EITC units (3 percent of total) is excluded.

children in the future, we turn primarily to the Congressional Budget Office's projections in the *Budget and Economic Outlook, Fiscal Years 2011–2021*, updated in March 2011 as part of its *Analysis of the President's Budgetary Proposals for Fiscal Year 2012*. In the mandatory spending area, the CBO baseline projections assume a continuation of current law and a reauthorization of expiring programs that do not appear to be intended as temporary, even if only temporarily funded. Note that while CBO's March 2011 budget projections extend through 2021, this report focuses on projections through 2020, ending on the decade.

For discretionary spending other than spending related to ARRA, the CBO baseline assumption is that spending is kept constant in real terms—that is, spending is adjusted upward for increases for inflation but does not include increases for growth in population or gross domestic product (GDP). As a result, projections for discretionary spending decline over time relative to both mandatory programs and GDP. This estimate is conservative relative to past trends in discretionary spending but similar to, and in some cases even more generous than, recent budget proposals that have called for a freeze on or cuts to discretionary spending in the future.

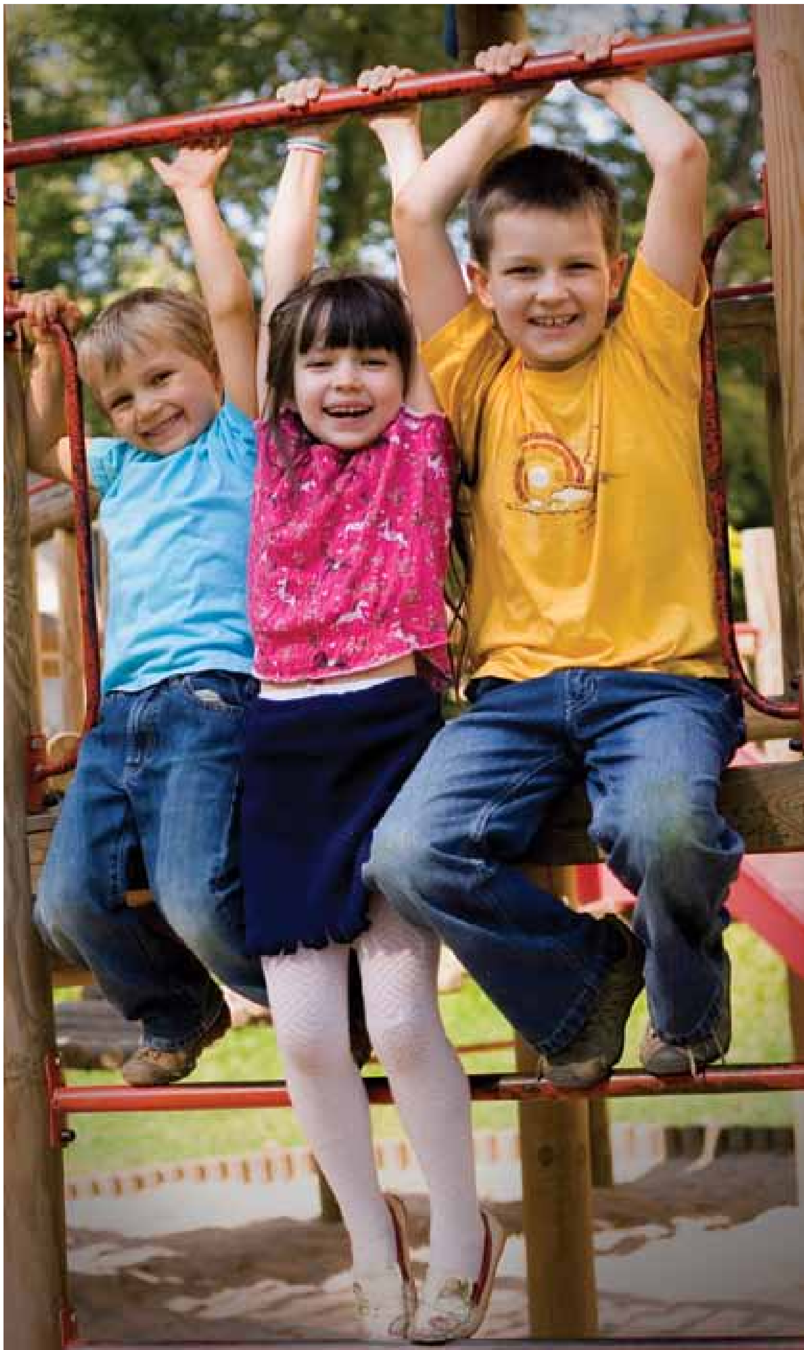
For tax programs, projections are calculated differently. For four large programs included in the analysis—the dependent exemption, the child tax credit, the earned income tax credit, and the child and dependent care credit—we obtain 10-year projections from the Urban-Brookings Tax Policy Microsimulation Model. Our tax expenditure projections differ from the strict CBO baseline: we follow current policy assumptions, which assume an extension of the individual income tax provisions originally included in the 2001 and 2003 tax bills (including the $1,000 level for the child tax credit) and extended through the end of 2012 as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010; maintain the estate tax at its 2009 parameters; extend the patch to the alternative minimum tax at its 2009 parameters; and index the AMT exemption, rate bracket threshold, and phaseout exemptions to inflation. For all other tax provisions, we use the five-year projections provided in the *Analytical Perspectives*, and then apply the average growth rate of these projections to the following five years.

In general, we assume that the children's share of spending within each program will remain constant from 2010 to 2020. In the case of Medicaid, Social Security, and Supplemental Security Income (SSI), we are able to use detailed CBO baseline projections, which project program outlays separately for children and other categories of beneficiaries. For the most part, we do not provide program-specific projections (which are highly uncertain) but limit ourselves to broad statements about children's spending in budget function categories (health, education), or statements about spending on children as a whole.

CHANGES IN METHODS IN THIS YEAR'S REPORT

This year's report contained modest changes in program coverage and methodology. In particular, we added new programs introduced by the Patient Protection and Affordable Care Act of 2010. This change primarily affected our projections, which now include very rough estimates of the children's share of the health insurance subsidy exchanges, beginning in 2014 (based on CBO projections for total spending and our estimate of a children's share, as explained in the *Data Appendix*). We also added the new Education Jobs Fund, which is a temporary program with projected outlays in 2010, 2011, and 2012. In addition, for housing assistance programs we now estimate the children's share as a share of *benefits* rather than a share of recipients. This change in methods reduces our estimate of housing assistance, because rental subsidies are lower in family units than in single-person units when estimated on a per person basis. The change was applied to historical as well as current expenditures to maintain consistency.

Finally, we performed a new analysis (see text box on page 10) highlighting how our estimates of children's expenditures in 2010 would increase if we added the children's share of the tax expenditure on employer-sponsored health insurance and the children's share of the dependent allowances under unemployment compensation, two categories of spending not currently included in our estimate of children's expenditures.



current expenditures on children

Our analysis of current expenditures on children begins with reporting on total federal expenditures on children in 2010 by broad spending category and by major program. This analysis includes our estimated effects of the temporary expansions under the American Recovery and Reinvestment Act. We then report on state and local expenditures, using available data to try to determine whether the recent temporary federal increases have compensated for state and local declines in expenditures on children.

FEDERAL EXPENDITURES ON CHILDREN IN 2010

Total federal outlays totaled $3.5 trillion in 2010, of which 11 percent or $374 billion was devoted to children. As detailed below, this $374 billion includes benefits and services for children provided through a diverse array of federal programs, as well as the refundable portions of the earned income tax credit (EITC) and the child tax credit (CTC). Outlays on children as a percentage of total federal outlays is the first definition of the "kids' share" of the federal budget, but we also provide other ways of looking at the children's share of federal expenditures.

In addition to direct outlays on children, the federal government provides tax breaks to families with children through the dependent exemption, the child tax credit, and other tax provisions. Tax expenditures on children totaled $71 billion in 2010, which is less than 7 percent of the more than $1 trillion in individual and corporate tax expenditures identified by the OMB for that year.[6] Although these measures are not strictly additive because of different methods of computation, summing the $374 billion in outlays and $71 billion in tax reductions results in an approximate total of $445 billion in expenditures on children, or 10 percent of the sum of total outlays and total tax expenditures.

Dozens of programs and tax provisions are included in the $445 billion in expenditures. Just ten programs and tax provisions, however, account for nearly three-quarters (72 percent) of all expenditures on children in 2010. As shown in figure 2, eight of these ten programs were expanded by the American Recovery and Reinvestment Act.

Medicaid spent more on children than any other program: an estimated $74 billion in 2010. Federal spending on Medicaid is higher than normal in 2009 and 2010 as a result of the recession's effect on increasing the number of needy children and ARRA, which temporarily increased the federal match rate for this federal/state program.

After Medicaid, the largest sources of expenditures on children are three child-related tax provisions. The earned income tax credit and the child tax credit, accounting for $55 billion and $46 billion, respectively, in 2010, are split between cash payments refunded to families (outlays) and reductions in tax liabilities. Most of the EITC comes in the form of cash refunds, while the CTC is split more evenly between refunded tax credits and reductions in tax liabilities. The EITC and the CTC were both expanded under ARRA for tax years 2009 and 2010, resulting in increased expenditures in 2009–11. The next-largest tax provision, the dependent exemption, reduces the tax liability of families by $35 billion compared with what they would have paid if they had not had children. Together, Medicaid and the three child-related tax provisions account for nearly half (47 percent) of expenditures on children.

Together, Medicaid and the three child-related tax provisions account for nearly half (47 percent) of expenditures on children.

47%

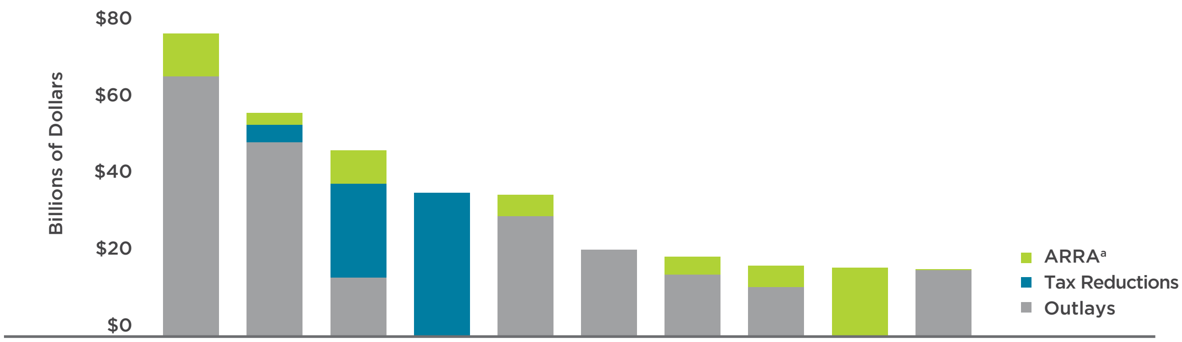
The fifth- and sixth-largest programs, SNAP and Social Security, are not typically thought of as children's programs. But, in fact, SNAP and Social Security provide children with significant resources, $35 billion and $21 billion, respectively. Like Medicaid, SNAP had substantial expenditures before the recession and then increased substantially (by 77 percent between 2008 and 2010) as more families qualified for assistance and joined the program and as monthly benefits were expanded under ARRA. In contrast, Social Security payments to children (survivor and dependent benefits) have not changed much during the recession or as a result of ARRA (the $250 supplemental benefit provided under the Recovery Act was restricted to those ages 18 and older).

The last four programs in the top ten list provide $16–$20 billion each and include three education programs and the Child Nutrition program, which provides meals in schools and other settings.

The expanded funding for various programs under ARRA, which was enacted midway through fiscal year 2009, has a particularly large impact on education outlays in 2010, with both Title I (education for the disadvantaged) and special education showing considerable outlays from ARRA funding. In addition, we estimate that about two-thirds of the new $53.6 billion State Fiscal Stabilization Fund (SFSF) established by ARRA was spent on K–12 education, of which $17 billion was spent in fiscal year 2010.

This year, we have made preliminary estimates of two programs or tax provisions that are not yet in our 1960–2010 database of children's expenditures. One, the children's share of the tax subsidy for employer-provided health care, is large enough (an estimated $19 billion) that it would fall into our top ten list if we were to add it to our database. The other, the children's share of dependent allowances under unemployment compensation, is much smaller ($1.6 billion). See the text box on page 10 for further details.

FIGURE 2 The Ten Largest Spending and Tax Programs by Expenditures on Children in Fiscal Year 2010



	Medicaid	EITC	Child Tax Credit	Dep. Exempt.	SNAP (food stamps)	Social Security	Title I	Special Ed	SFSF	Child Nutrition
ARRA[a]	10.5	3.0	8.2	-	5.2	-	4.3	5.3	16.8	0.1
Tax Reductions	-	4.3	23.0	35.2	-	-	-	-	-	-
Outlays	63.9	47.7	14.4	0.0	29.5	21.2	15.2	12.0	0.0	16.2

Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2012* and unpublished tabulations from the Congressional Budget Office.
[a] The ARRA impact is primarily on outlays, but there is a small impact on tax reductions, as detailed in table 1.

ADDITIONAL EXPENDITURES ON CHILDREN

The Kids' Share database contains information on more than 100 programs and tax provisions. Even so, we continue to seek out new programs or additional forms of spending that might be added. This year, we did new estimates for two programs or tax provisions: the children's share of the tax subsidy for employer-provided health insurance and the children's share of unemployment benefits in states that provide dependent allowances for children. There was an estimated $19 billion in tax expenditures on employer-provided health insurance for children in 2010 and $1.6 billion spent on dependent allowances in certain states' unemployment programs. Because these are ballpark estimates that were only calculated for one year, we do not include them in the Kids' Share estimate of total expenditures on children. If we did, total expenditures would increase from $445 billion to $465 billion.

We plan to continue estimating tax expenditures on employer-provided health insurance in the future, to determine whether future declines in such tax expenditures may offset increases in spending for public coverage. A forthcoming issue brief on the children's share of health spending will discuss this issue further. We also will monitor the number of states that provide dependent allowances to unemployed workers with children to see whether such allowances become more widespread and merit inclusion in the Kids' Share database.

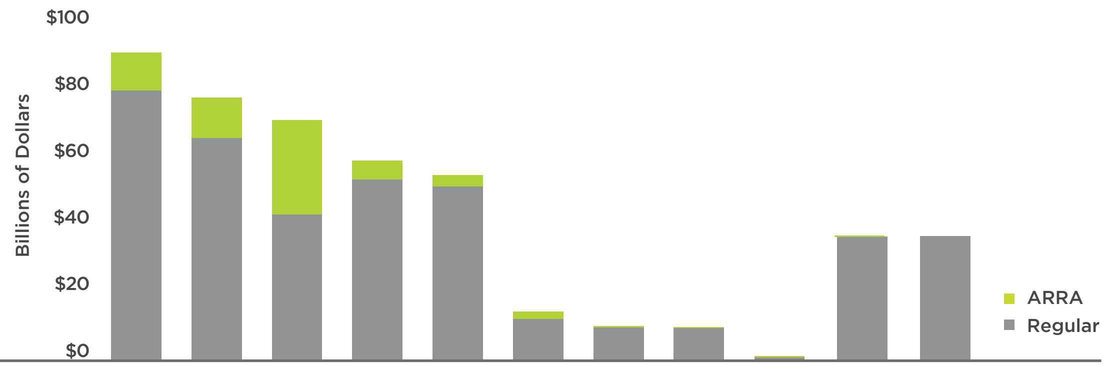
Unemployment benefits. Unemployment benefits are not classified as children's spending in the Kids' Share analysis because benefits do not generally increase with the presence of children. However, some states provide increased benefits for workers with children. While some states have done so for decades, two additional states began doing so in 2010, bringing the number of states with dependent allowances to 15. Unfortunately, there are no good data on the amount of unemployment benefits provided in the form of dependent allowances to minor children. By combining data from various sources, we arrived at a ball-park estimate of roughly 1 percent of total unemployment benefits spent on such allowances. In 2010, 1 percent of federal funding for unemployment compensation comes to $1.6 billion; the amount would be much less in years with lower unemployment.

Tax exclusion for employer-provided health insurance. The exclusion of employer-provided health insurance from income tax is the largest single tax expenditure for individuals, valued at approximately $160 billion in 2010. Because the cost of health insurance for families is greater than the cost for individuals, the resulting subsidies are higher for workers with children than workers without children; thus, these tax expenditures fit with the Kids' Share definition of spending on children. To estimate the children's share of the tax exclusion for employer-provided health insurance, we worked with analysts from the Urban Institute's Health Policy Center to combine estimates from the Urban Institute's Health Insurance Policy Simulation Model and the National Bureau of Economic Research's TAXSIM model. The total tax advantage for a family policy is allocated to children based on the marginal costs of providing health insurance to dependents, calculated as the difference between a family plan and individual coverage. In this case, we use marginal costs, rather than dividing the cost of the family plan equally among all members in a family, because dependent coverage is always in addition to primary coverage of the primary worker. Based on this methodology, and distinguishing between coverage for spouses and coverage for children, we estimate that 12 percent of the health insurance exclusion benefit can be attributed to children, representing $19 billion in 2010. Further information on both these estimates is provided in the *Data Appendix*.

Total expenditures on children can be broken into nine broad outlay categories (health, tax credits, education, nutrition, income security, early education and care, social services, housing, and training) and two tax expenditure categories (tax expenditures as defined by the OMB, and the dependent exemption), as shown in figure 3. Children's heath, the largest category of spending on children, is the focus of a forthcoming issue brief by the Urban Institute and Brookings Institution. The next two largest categories are the refundable tax credits and education.

This analysis of spending by category shows ARRA's powerful effect on education spending on children. ARRA investments in education increased education outlays on children by $27 billion in 2010 and accounted for 39 percent of all federal education spending, including 100 percent of the new State Fiscal Stabilization Fund, 31 percent of federal spending on special education, and 22 percent of spending on Title I/education for the disadvantaged. Federal funding for education will decline dramatically as these ARRA funds run down over the next year or two (as discussed further in the projections section).

FIGURE 3 Federal Expenditures on Children in Fiscal Year 2010, by Category



	Health	Tax credits (refundable portion)	Education	Nutrition	Income Security	Early Education and Care	Social Services	Housing	Training	Tax Expenditures	Dependent Exemption
ARRA	10.7	11.4	26.7	5.3	3.1	2.0	0.8	0.2	0.6	0.4	0.0
Regular	76.5	63.1	41.5	51.4	49.3	11.9	9.5	9.3	1.1	35.1	35.2

Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2012* and unpublished tabulations from the Congressional Budget Office.

Funding levels for many other programs benefiting children also are expected to drop when the ARRA impacts end (see table 1, which presents estimates of regular and ARRA spending for all programs or tax provisions that have 2010 expenditures of $1 billion or more for children).[7] In the absence of ARRA, the refundable portion of the child tax credit would be reduced by 36 percent in 2010, child support enforcement by 29 percent, the Child Care and Development Fund by 20 percent, SNAP benefits by 15 percent, and Medicaid and TANF by 14 percent.

The loss of ARRA funding has a particularly strong impact on children's programs because children's programs received a sizable share of spending under ARRA. An estimated 25 percent of the ARRA outlays and 4 percent of the ARRA tax reductions were targeted toward children, for an overall kids' share of 20 percent, over the 2009–19 period. The kids' share of ARRA outlays was more than twice as high as the kids' share of overall budget outlays (25 percent compared with 11 percent).

TABLE 1 Effects of the American Recovery and Reinvestment Act (ARRA) on Expenditures on Children in 2010, by Major Category and Major Program

	TOTAL 2010 (billions of dollars)	Without ARRA	ARRA	ARRA as percentage of total
1. HEALTH	**$87.2**	**76.5**	**10.7**	**12%**
Medicaid	74.5	63.9	10.5	14
CHIP	7.1	7.1	—	—
Medicaid — Vaccines for Children	3.5	3.5	—	—
Other health[a]	2.2	2.0	0.2	9
2. INCOME SECURITY	**52.5**	**49.3**	**3.1**	**6**
Social Security	21.2	21.2	—	—
Temporary Assistance for Needy Families	14.7	12.7	2.0	14
Supplemental Security Income	9.8	9.8	—	—
Child support enforcement	3.9	2.8	1.1	29
Veterans' benefits	2.8	2.8	—	—
Railroad retirement	+	+	—	—
3. EDUCATION	**68.2**	**41.5**	**26.7**	**39**
Education for the disadvantaged (Title I, Part A)	19.5	15.2	4.3	22
Special education	17.3	12.0	5.3	31
State Fiscal Stabilization Fund	16.8	—	16.8	100
School improvement	5.3	5.1	0.2	5
Education Jobs Fund	1.2	1.2	—	—
Impact Aid	1.2	1.2	+	0
Dependents' schools abroad	1.2	1.2	—	—
Innovation and improvement	1.0	1.0	+	2
Vocational (and adult) education	1.0	1.0	—	—
Other education[b]	3.7	3.7	+	0
4. NUTRITION	**56.7**	**51.4**	**5.3**	**9**
SNAP	34.7	29.5	5.2	15
Child nutrition	16.3	16.2	0.1	0
Special Sup. for Women, Infants & Children (WIC)	5.7	5.7	+	0
Commodity Supplemental Food Program	+	+	—	—
5. EARLY EDUCATION AND CARE	**13.9**	**11.9**	**2.0**	**14**
Head Start and Early Head Start	8.0	7.2	0.8	10
Child Care and Development Fund	5.9	4.7	1.2	20
6. SOCIAL SERVICES	**10.3**	**9.5**	**0.8**	**8**
Foster care	4.5	4.0	0.5++	++
Adoption assistance	2.4	2.4	++	++
Social Services Block Grant	1.1	1.1	—	—
Other social services[c]	2.4	2.1	0.3	12
7. HOUSING	**9.5**	**9.3**	**0.2**	**2**
Section 8 Low-Income Housing Assistance	7.1	6.9	0.2	3
Public housing	1.2	1.2	—	—
Low Income Home Energy Assistance	1.1	1.1	—	—
Other housing[d]	0.1	0.1	—	—
8. TRAINING[e]	**1.7**	**1.1**	**0.6**	**36**
9. REFUNDABLE PORTIONS OF TAX CREDITS	**74.5**	**63.1**	**11.4**	**15**
Child tax credit	22.7	14.4	8.2	36
Earned income tax credit	50.4	47.7	2.8	5
Other outlays from tax provisions[f]	1.4	0.9	0.5	33
10. TAX EXPENDITURES	**35.4**	**35.1**	**0.4**	**1**
Child tax credit (nonrefundable portion)	23.0	23.0	+	—
Earned income tax credit (nonrefundable portion)	4.5	4.3	0.3	6
Dependent care credit	3.4	3.4	—	—
Exclusion of employer-provided child care	1.2	1.2	—	—
Other tax credits/exemptions[g]	3.3	3.2	0.1	3
11. DEPENDENT EXEMPTION	**35.2**	**35.2**	**—**	**—**
TOTAL EXPENDITURES ON CHILDREN	**445.2**	**384.0**	**61.1**	**14**
OUTLAYS SUBTOTAL (1-9)	**374.4**	**313.6**	**60.8**	**16**
TAX EXPENDITURES SUBTOTAL (10-11)	**70.7**	**70.3**	**0.4**	**1**

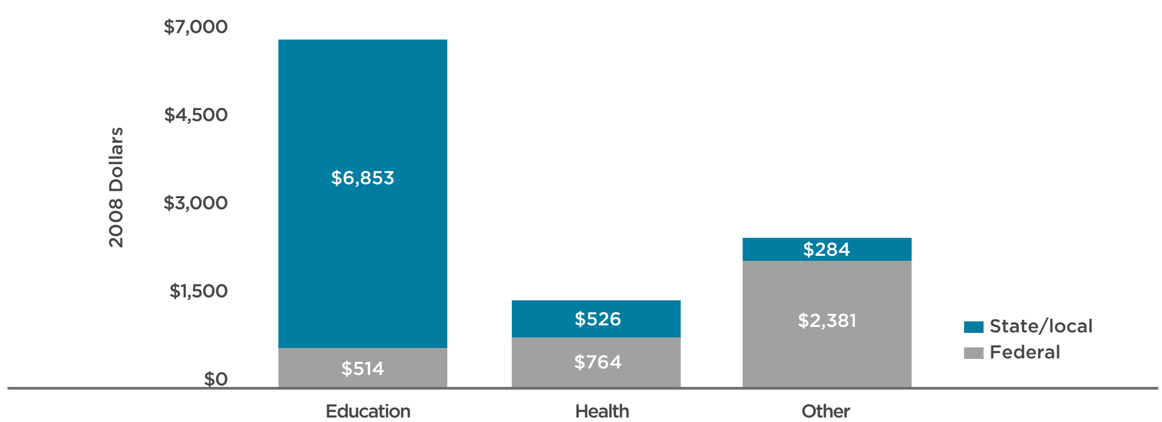
Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2012* and tabulations provided by the Congressional Budget Office.
+ Less than $500 million.
++ The ARRA increase for foster care and adoption assistance is shown together and represents 7 percent of spending under the two programs combined.
a. Other health includes immunizations, Maternal and Child Health (block grant), children's graduate medical education, lead hazard reduction, abstinence education, children's mental health, birth defects/developmental disabilities, Healthy Start, emergency medical services for children, and universal newborn hearing.
b. Other education includes safe schools and citizenship education, bilingual and immigrant education, Indian education, domestic schools, the Institute for Education Studies, Junior ROTC, hurricane education recovery, and Safe Routes to Schools.
c. Other social services includes family preservation and support, juvenile justice, child welfare services and training, community services block grant, independent living, missing children, children's research and technical assistance, and certain children and family services programs.
d. Other housing includes rental housing assistance and rent supplement.
e. Training includes WIA Youth Formula Grants, Job Corps, Youth Offender Grants, and YouthBuild Grants.
f. Other outlays from tax provisions included outlays from the adoption tax credit (refundable in 2010), and outlays associated with Qualified Zone Academy Bonds and Qualified School Construction Bonds.
g. Other tax credits and exemptions includes exclusion of certain foster care payments, adoption credit and exclusion, assistance for adopted foster children, exclusion for Social Security retirement and dependents & survivors' benefits, exclusion for Social Security disability benefits, exclusion for public assistance benefits, exclusion for veterans death benefits and disability compensation, Qualified Zone Academy Bonds, and Qualified School Construction Bonds.

STATE AND LOCAL SPENDING ON CHILDREN

Since much of the temporary increase in federal spending under ARRA was designed to substitute for or cushion cuts in state and local spending, we now analyze state and local spending on children. To do so, we combine our estimates of federal spending with state and local expenditure data collected by the Rockefeller Institute. To increase comparability of the two types of spending data, we limit the federal spending to outlays, not tax reductions, because the effect of child-related tax provisions in state and local law are generally not included in the Rockefeller Institute estimates of state and local law. Even so, there are some differences in the two types of expenditures.[8] Here we must take a slight step back in time, as the most recent state and local expenditures are for 2008. However, the next section captures one piece of data available through March 2011: the number of people working in local public schools.

Public schools account for the lion's share of the state and local spending on children, as shown in figure 4. State and local spending on education averaged $6,853 per child in 2008 (spread across all children under 19, including those not in school). The federal government paid only $514 per capita, or 7 cents of the average dollar spent, on elementary and secondary education. The large ARRA increases in federal funding for education in 2009 and 2010, while significant, represent a modest proportion of total spending on education. Spending on education represents 65 percent of total public spending on children.

FIGURE 4 Per Child Federal, State, and Local Expenditures on Children in 2008, by Category



Source: The Urban Institute and The Brookings Institution, 2011.
Note: Tax expenditures are not included in either the federal or state/local numbers.

Expenditures on health were more evenly split between the federal and state/local governments, with the federal government providing 59 percent, or $764 per capita, and the states 41 percent, or $526 per capita. Health spending accounted for 11 percent of total public investments in 2008. Finally, all other spending accounted for about a quarter (24 percent) of all public investments. The federal government provides 89 percent of the dollars in this category, which includes income security, the refundable portions of the EITC and CTC, nutrition, early education and care, social services, housing, and training.

Across all categories, public investments totaled $11,323 per child in 2008, split roughly one-third federal and two-thirds state/local. These figures represent per capita averages across all states, all ages of children, all income categories, all levels of disability, and so on. In fact, per capita spending varies considerably across many dimensions. For example, 2004 state and local spending on children varied from $3,699 in Utah to $9,267 in New Jersey, and federal expenditures on children also varied to some extent (Billen et al.

2007). Other research has found that spending also varies by age, with total spending twice as high on elementary school–age children as on infants and toddlers.[9] Per capita spending also varies by a child's need and eligibility for services, which may vary by family income, disability status, or other condition.

For comparison, public spending on the elderly was roughly $24,800 per person, or 2.2 times the amount spent per child in 2008.[10] A significant portion of public expenditures on the elderly—roughly $10,000 per person—is for health care expenses, but per capita spending on the elderly remains considerably higher than per capita spending on children even without including health care.

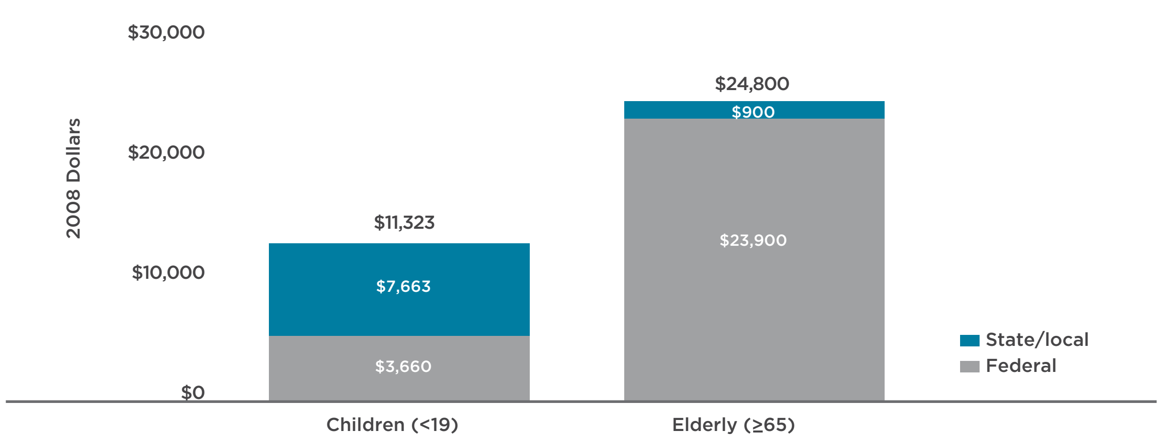
As shown in figure 5, the vast majority of public spending on the elderly is federally funded, primarily through Social Security and Medicare. Less than 5 percent comes from state and local governments. Looking solely at the federal budget, an elderly person receives close to seven federal dollars for every dollar received by a child. The size of the elderly population is about half that of the child population; there were 38.7 million elderly age 65 and older, representing 13 percent of the population in 2008, compared with 79.2 million children age 18 and younger, or 26 percent of the population. In aggregate, federal outlays on the elderly were 3.2 times those on children in 2008; 31 percent of federal outlays in 2008 were spent on the elderly, compared with 10 percent on children.

TOTAL SPENDING ON CHILDREN DURING THE RECESSION

As already noted, federal spending accounts for about one-third of total spending on children. In fact, the federal share of expenditures on children has been rising slightly, from 29–30 percent in 1998–2002 and 31–33 percent in the years 2003–08. The share is likely to be higher in 2009 and 2010 because federal spending on children increased, while expenditures from state funds were generally decreasing.[11] However, we do not yet have data on local spending on children, and thus do not have a complete measure of state and local spending on children.

Without complete state and local data for 2009 and 2010, we cannot determine whether the increase in federal spending during the recession was large enough to offset state and local cuts, and thus whether total (federal/state/local) spending on children increased or decreased over the past two years. One scenario is that the federal increases were larger than state declines, as

FIGURE 5 Per Capita Spending on Children and the Elderly in 2008



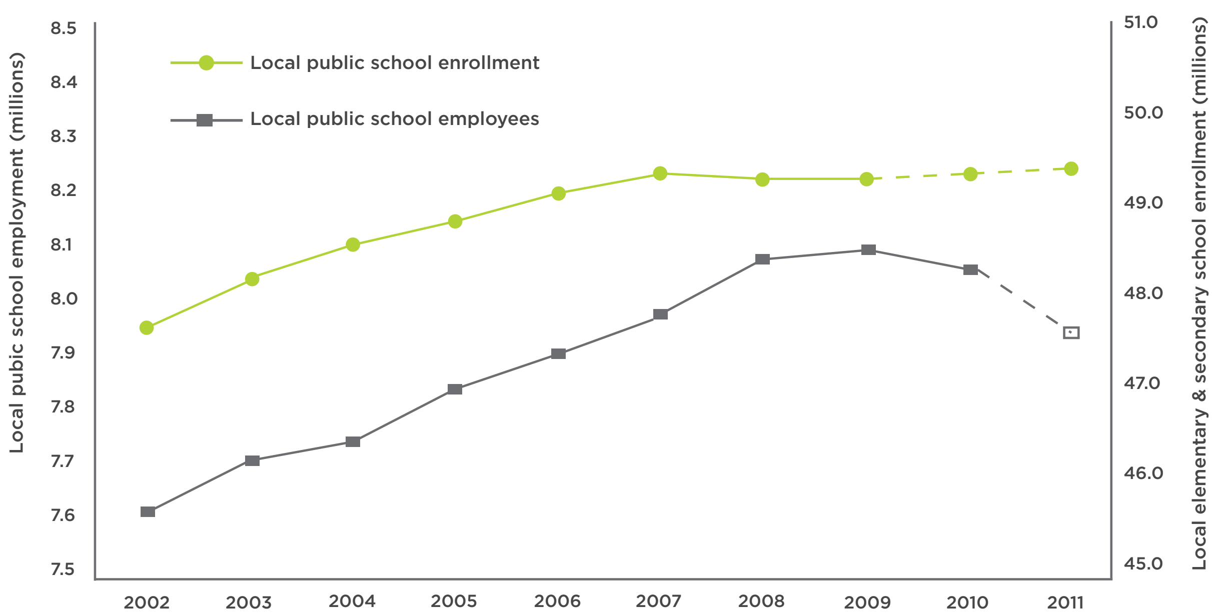
Source: The Urban Institute and The Brookings Institution. 2011.

appears to be the case with Medicaid. The Medicaid program as a whole grew, consistent with ARRA restrictions on cutting back states' eligibility rules for Medicaid and the increases in the number of families qualifying for assistance in times of high unemployment.

The alternate scenario is that the federal increase was smaller than state and local declines, as appears to be the case in education, where evidence is emerging that services declined in 2010. Because education accounts for almost two-thirds of all public spending on children, we examine this evidence more closely. As shown in figure 6, the number of people employed in the local public educational sector (e.g., K–12 teachers, principals, superintendents, support staff) dropped in 2010, in contrast to several years of increases in conjunction with rising enrollment in public schools.[12] This drop in public employees working in local education, while small numerically, suggests that the total (federal/state/local) spending on K–12 education declined between 2009 and 2010, particularly when one considers the possibility that local school districts took additional cost-cutting measures beyond those reflected in the payroll statistics, such as freezing salaries or cutting back on non-labor costs.

With the apparent decline in education, the largest component of spending on children, it appears probable, but not certain, that net public investments in children declined in 2010. The picture looks more grim in 2011, given the sharp drop in public school employees occurring in data through March 2011 (shown in figure 6), as well as the scheduled phaseout of the enhanced federal match for Medicaid and other declines in federal funding. More generally, the temporary expansion in federal funding under ARRA ends in 2011 and 2012, when state budgets are still under severe pressure during the long and slow recovery from the recession. The combination of declines in federal funding and tighter state budgets makes the likelihood of cuts in services to children in the immediate future quite high. We return to this issue later in the report, after a look at historical spending trends over the past 50 years.

FIGURE 6 Local Public School Employees and Public Elementary and Secondary Enrollment 2002–11 (in millions)



Source: The Urban Institute and The Brookings Institution, 2011.

The children's share of the federal outlays increased to 11 percent in 2010, slightly higher than in 2009.

11%

federal spending over 50 years

The *Kids' Share* report marks a milestone in the analysis of federal expenditures on children because available data now span 50 years, from 1960 to 2010. During the past half-century, the size and composition of the both the overall federal budget and the children's budget has changed considerably. Current expenditures are affected by the immediate crisis of the recession of late 2000s as well as by long-term budgetary trends.

BROAD BUDGET TRENDS OVER 50 YEARS

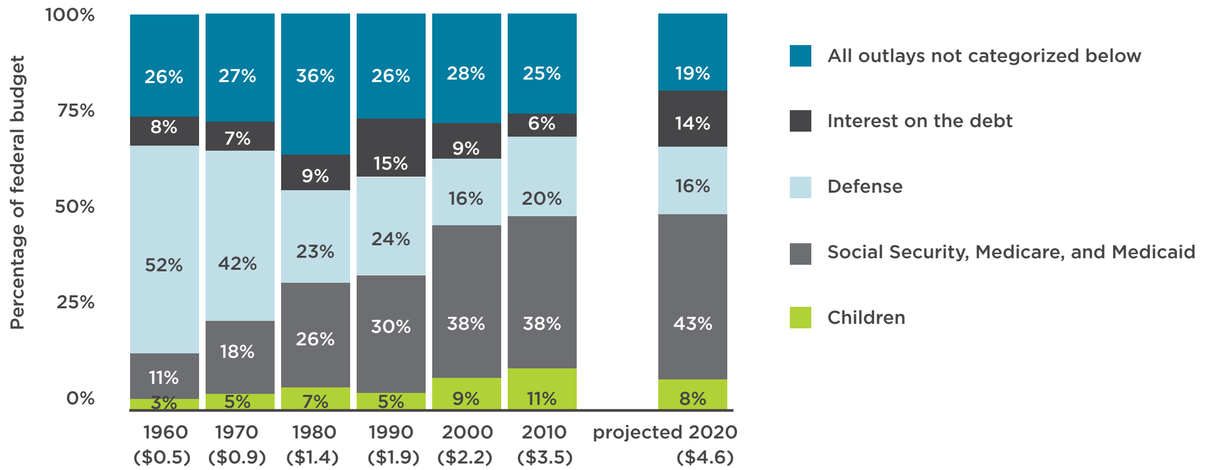
Over the past 50 years, federal spending has adapted to ever-evolving political and economic environments, changing in total size, allocation of federal dollars, and beneficiaries. As a result of both new government programs and robust economic growth, federal spending has increased nearly sevenfold over the past half-century in real terms, from just over $500 billion in 1960 to $3.5 trillion in 2010. While spending in 2010 was below the peak level of 2009, at 23.9 percent of GDP it was still close to its largest share of the economy over the entire half-century of expenditures tracked in this report. With the country still recovering from the most severe economic recession since the 1930s, the federal government continued to encourage new growth, support the unemployed, strengthen struggling industries, and aid still-suffering state and local governments.

Children's spending in 2010 also was higher than in previous years, $374 billion in outlays, due to both automatic program responses to the increase in families needing assistance and continued implementation of the American Recovery and Reinvestment Act. The recession-related boost in federal spending appears to have lagged slightly for children's programs, with outlays on children expected to peak in 2010 rather than in 2009. As a result, the children's share of the federal outlays increased to 11 percent in 2010, slightly higher than in 2009 and considerably higher than 50 years ago (3 percent). Much of this increase is temporary, however, with the children's share of the budget expected to shrink to less than 8 percent by the end of the next decade, as shown in figure 7.

While the increase in spending on children is largely temporary, other parts of the federal budget show a steady increasing trend that predates the recession and is likely to continue upward long after the recovery dollars have been spent. The share of the budget spent on the nonchild portions of the three large entitlement programs—Social Security, Medicare, and Medicaid—rose from 11 percent in 1960 to 38 percent, or well over a third of the federal budget, by 2010. This share is projected to rise further to 43 percent by 2020.

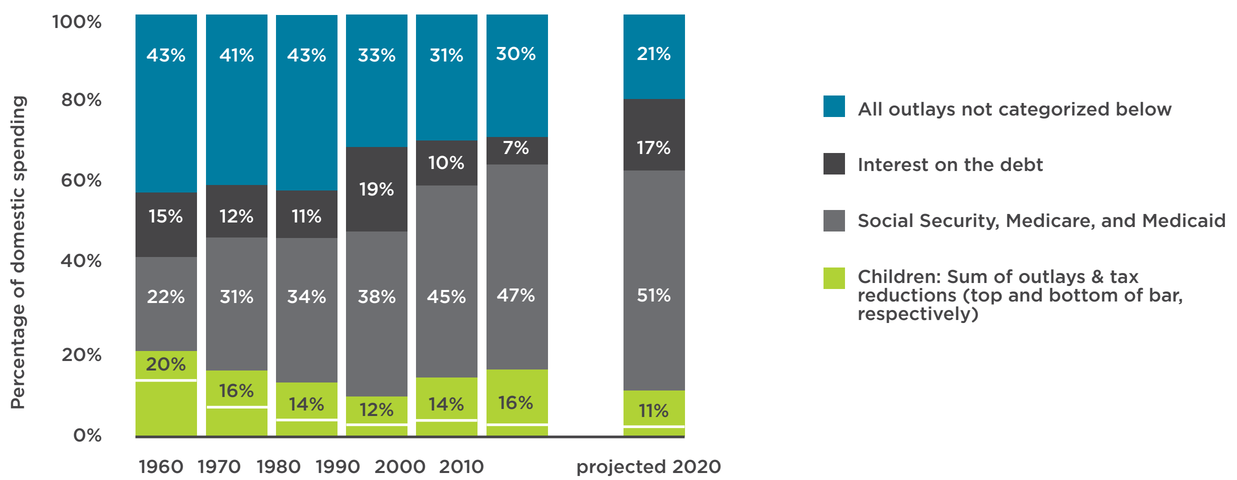
Between 1960 and 2010, the share of the budget spent on defense fell from 52 to 20 percent. Interest payments on the debt have fluctuated over the past half-century and account for 6 percent of all budget outlays in 2010. A residual category of 25 percent of outlays in 2010 includes spending on other federal spending priorities

FIGURE 7 Trends in Outlays on Children as a Share of Total Budget Outlays



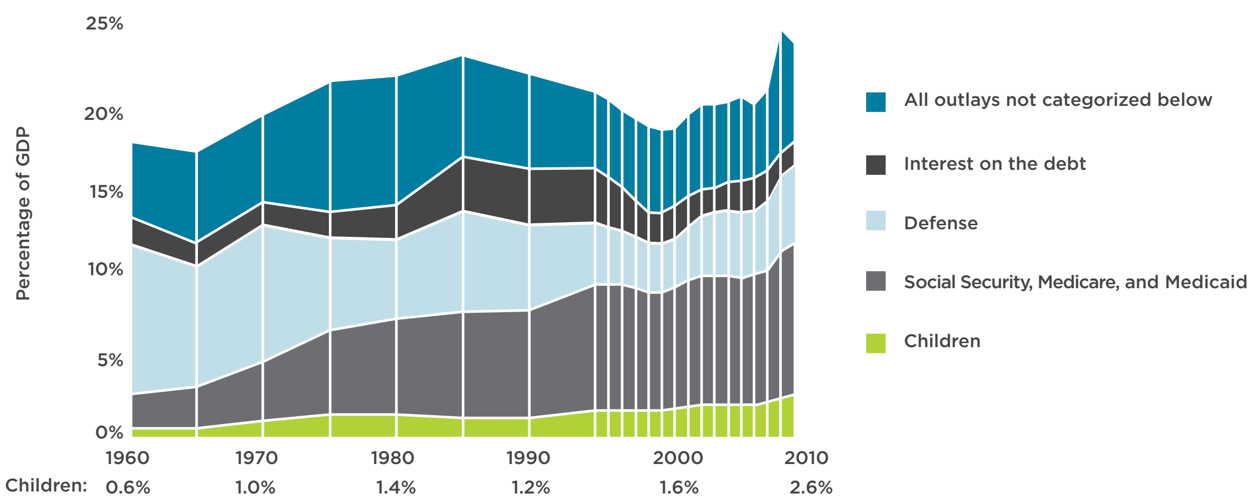
Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2012* and previous years and CBO projections. Notes: Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending. Dollars at the bottom show total federal outlays in trillions of 2010 dollars.

FIGURE 8 Trends in Expenditures on Children as a Share of Domestic Federal Budget



Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2012* and previous years and CBO projections. Notes: Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending. Domestic spending includes tax expenditures on children as well as outlays on all budget items other than defense and international affairs.

FIGURE 9 Trends in Spending on Children and Other Major Items in the Federal Budget, Measured as Percentage of GDP, 1960–2010



Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2012* and past years.

such as transportation, justice, commerce, and so on, as well as recovery expenditures not classified as children's spending, including unemployment benefits.

Tax expenditures are not included in federal budget totals and so are not included in figure 7 (or figure 9). As already discussed, a number of provisions in the tax code benefit children; expenditures from these tax provisions (including the dependent exemption) total $71 billion or 0.2 percent of GDP in 2010 and, for alternative comparison purposes, are included in figures 8, 10, 11, and 12.

To get a sense of spending on children has fared relative to other domestic priorities, we calculate another measure, the kids' share of the domestic budget. This comprehensive measure excludes spending on defense and international programs, and includes tax expenditures and outlays on children. By this measure, we estimate that expenditures on children made up 20 percent of domestic expenditures in 1960 and have fallen since to 16 percent of the domestic budget in 2010. In other words, the children's share of the domestic budget has declined by 20 percent (figure 8). As discussed further below, this decline is driven primarily by a drop in the value of the dependent exemption over the past 50 years.

In contrast, spending on Social Security, Medicare, and Medicaid (excluding any money going for children) has more than doubled over the same period, increasing from 22 to 47 percent of the domestic budget.

Despite the decline in children's spending relative to other domestic priorities over the past 50 years, this period has also seen a great expansion in the number of programs for children. As new programs and initiatives were introduced over the 1960s and '70s, federal outlays spent on children more than doubled (albeit from a low base), from 0.6 percent of GDP in 1960 to 1.4 percent of GDP in 1980 (figure 9). Important programs adopted during this time include food stamps, Medicaid, and education for the disadvantaged/Title 1. Spending on children increased slowly over the next 20 years, reaching 1.6 percent of GDP in 2000. Since then, expansions in Medicaid and the Children's Health Insurance Program (CHIP) and growth in tax credits targeted to children, combined with recent increases in spending due to the recession and ARRA, pushed children's spending up to a record level of 2.6 percent of GDP in 2010.

What has been happening to other major items in the federal budget over this same period? As a share of the economy, the nonchild portions of Social Security, Medicare, and Medicaid have increased dramatically, from 2.0 percent of GDP in 1960 to 9.1 percent of GDP in 2010. In contrast, defense spending fell, from 9.3 percent of GDP in 1960 to 3.0 percent of GDP in 2000. The wars in Iraq and Afghanistan increased defense spending up to 4.7 percent of GDP in 2010, but even with this increase, spending on defense today is still just over half of what it was during the 1960s. Total federal spending has not shown a consistent trend relative to the size of the economy; it has risen in some periods and fallen in others, fluctuating between about 17 percent and 25 percent of GDP (with the peak of 25 percent occurring in 2009).

In broad terms, the long-term decline in defense spending between 1960 and 2000 allowed an increase in spending on both elderly and children's programs for several decades, without substantial expansion in total federal outlays relative to the size of the economy. Such a trend cannot continue forever. In fact, the picture has been shifting over the past decade, as spending on domestic priorities has continued to increase without any decline in defense spending. Instead, the growth in spending has been financed in large part through deficits: federal spending was nearly 24 percent of GDP in 2010, while revenues were only 15 percent, a historic low. While the disparity between spending and taxes is partly a result of increased government spending and decreased government revenues during the recession, the government was running deficits before the recession. In short, it will be difficult to maintain the same magnitude of growth in spending on both children and elderly in the future as has been witnessed over the past 50 years. Indeed, Congress spent considerable time in spring 2011 considering various approaches to reducing the level of federal spending. Increasing revenues to accommodate increased spending on health and retirement programs is an option that is rarely discussed.

TRENDS IN EXPENDITURES ON CHILDREN OVER 50 YEARS

We turn now from broad trends in federal outlays to a closer look at children's expenditures over the past half-century, looking comprehensively at outlays as well as the dependent exemption and other tax breaks for families with children.

Children's spending through discretionary programs—that is, programs subject to annual appropriations actions—grew in the late 1960s, partly because of the introduction of education for the disadvantaged/Title I (1965) and Head Start (1966), as shown in figure 10. Since then, discretionary spending on children has been relatively flat, as a percentage of GDP, until the last two years of increases under ARRA.

Children's spending through mandatory programs, including entitlements and other programs where the funding level is set directly in the authorizing legislation, has grown more steadily over the past half-century. Much of that growth has been driven by increases in Medicaid, due to both expansions in coverage and the high rate of growth in medical costs. Outlays associated with tax credits also have increased dramatically over the past 50 years, particularly since 1985. The earned income tax credit, originally introduced in the 1970s, was expanded in 1986, 1990, and 1993.

Tax expenditures, including the portion of the earned income tax credit that is not refunded as cash payments to families but reduces taxes owed by families, also have been growing. The child tax credit, introduced in 1997, is the predominant force driving the dramatic recent growth in tax expenditures on children, though this category also includes the child and dependent care tax credit and other provisions.

This growth in the child tax credit and other tax expenditures has occurred, however, against the backdrop of a large decline in estimated expenditures associated with the dependent exemption. The decline was particularly dramatic between 1960 and 1985, but it has continued since then. In fact, the combined value of all tax provisions affecting children (refundable tax credits, tax expenditures, and the dependent exemption) is lower in 2010 than it was in 1960 (1.0 percent of GDP compared with 1.3 percent).

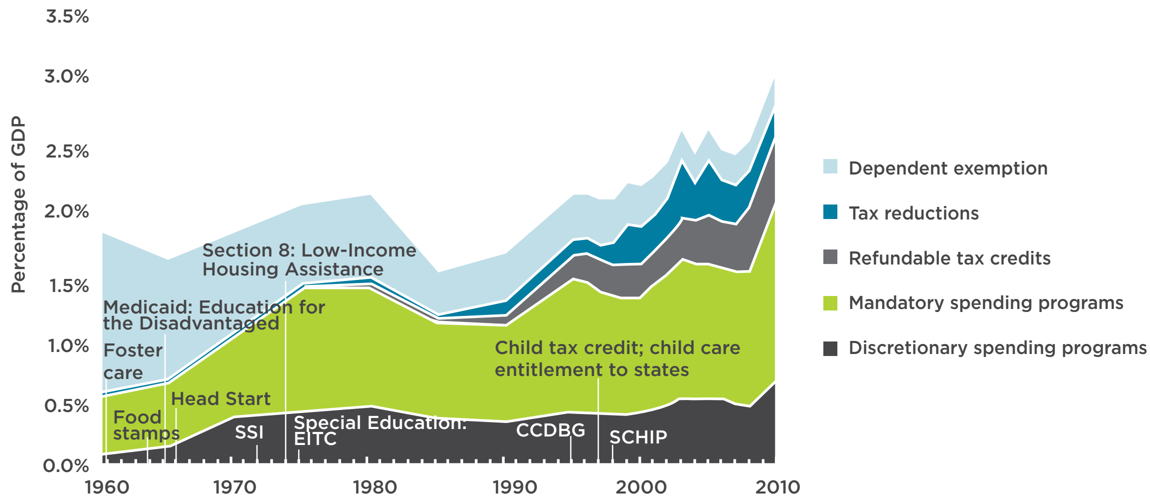
The long-term decline in the dependent exemption should be interpreted with some care. Some of the decline reflects the eroding value of the exemption amount, which remained a flat $600 from 1948 to 1969 and was not indexed to inflation until after 1984. However, some of the reduction in expenditures on the dependent exemption results from overall reductions in tax rates. Since the dependent exemption reduces taxable income, its value is determined by the tax rate facing the taxpayers claiming the exemption. Thus, the dependent exemption provides less of a benefit to low-income families than to higher-income families, and it provides less of a benefit when tax rates are reduced across the board, as occurred in 2001.[13]

Federal spending on children has also shifted in terms of how benefits are received. Other than the reduction in taxes, benefits in the 1960s were mainly received as cash payments to parents on behalf of their children; less than 10 percent of all benefits were in-kind benefits (for example, housing and nutrition benefits). Over time, as new programs providing in-kind benefits and services have been introduced (e.g., health and education), noncash benefits have become an increasingly important share of the benefits provided to children, as shown in figure 11. In the past two years, recession-related increases in participation in programs like Medicaid (providing services for children) and SNAP (providing in-kind benefits) sharply increased spending for children through in-kind benefits. In 2010, in-kind benefits accounted for more than half of total expenditures on children.

Further, as mentioned above, children are now receiving a significant share of benefits through the tax code. While the dependent exemption has declined over time, several new tax reductions and tax expenditures have been introduced and expanded since the 1980s. Some of the decline in cash payments to parents has been offset by an increase in refundable tax credits, which also provide cash payments, though annually rather than monthly. The two main refundable tax credit affecting children today are the EITC and CTC; together, these tax credits provided more than $100 billion in support to families with children in 2010, including $73 billion in refundable tax credits and nearly $28 billion in tax reductions.

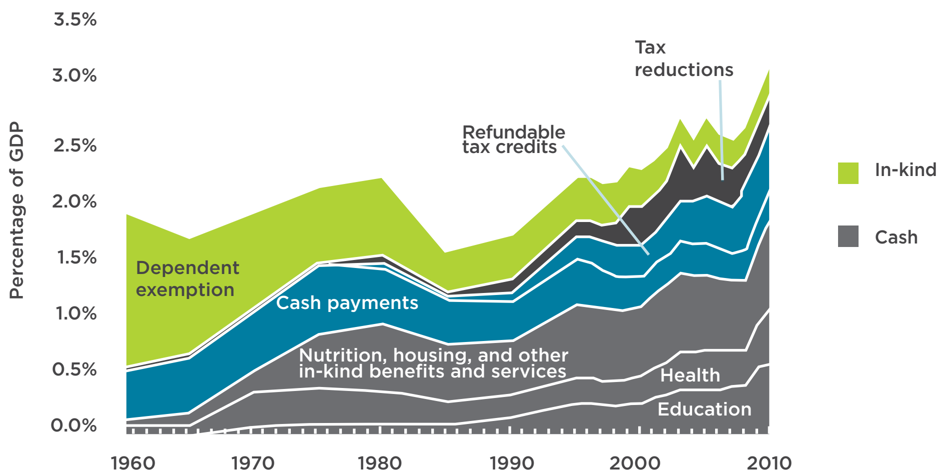
In addition to changes in how children receive benefits, the question of who receives benefits has been changing over time. Over the past 50 years, spending on children has generally (though not always) shifted toward spending on programs that are means tested—that is, only available to families below a certain level of financial means. This shift reflects both the introduction and expansion of programs targeted on low-income families, and, in more recent years, an increase in the income limits for some means-tested programs (e.g., Medicaid).

FIGURE 10 Historical Spending Trends on Children, Measured as Percentage of GDP, 1960–2010



Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2012* and past years

FIGURE 11 In-Kind, Cash Payments, Refundable Taxes, and Tax Expenditures on Children, 1960–2010



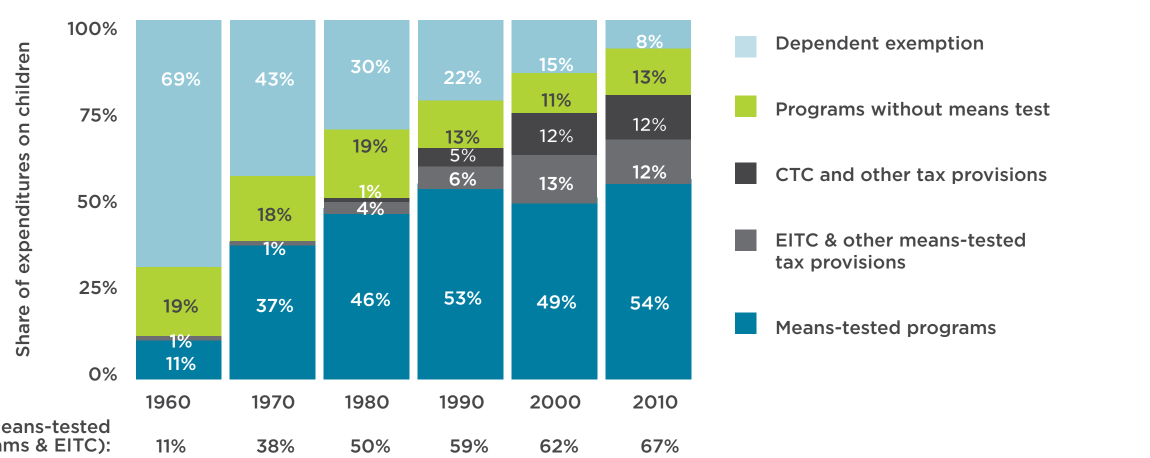
Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2012* and past years

In 1960, the majority of children's expenditures were on benefits that were not means tested, such as Social Security and the dependent exemption. The focus of children's spending changed during the 1960s and early 1970s, when new federal programs such as food stamps and Medicaid were introduced to serve low-income populations. By 1980, half (50 percent) of total federal expenditures were on means-tested programs (see figure 12). The share of expenditures on means-tested programs continued growing in the early 1990s, following expansions in Medicaid coverage for pregnant women, infants and children and the expansion of the EITC and SSI payments to disabled children. After reaching 70 percent by 1995 (data not shown), the trend reversed, with the share of means-tested programs and tax expenditures dropping back to 62 percent in 2000. This contraction was partly to the expansion of the child credit, which—because it is phased out only at fairly high income levels—is not counted among means-tested programs in this analysis.[14] Means-tested spending has grown considerably in the past two years, totaling 67 percent of all expenditures on children in 2010, reflecting the recession, its effects on family incomes, and the ARRA expansions of SNAP, the EITC, Medicaid, and other programs providing assistance to families in financial need.

A challenge in conducting this analysis is that the definition of means-tested is imprecise and covers many different concepts, with different programs using different income limits. Moreover, policymakers have chosen to make some programs, most notably Medicaid and CHIP, available to children higher up the income ladder today than the past. Together, Medicaid and CHIP now cover one-third (33 percent) of all children under 19, with the income limits for CHIP extending as high as 300 percent of the poverty level in several states, in order to assist working families of modest incomes who may not be able to purchase health insurance for their children.[15] In a forthcoming report, we plan to look more closely at the issue of federal expenditures by income level, using a consistent definition of low-income (below 200 percent of the poverty level), and examining spending on low-income children from both means-tested and more universally available programs. As a final note, recall that the vast majority of state and local spending is on public schools, which provide universal public education. So while the majority of federal expenditures on children are provided through means-tested programs, the majority of state and local expenditures are on universal programs that serve children throughout the income distribution.

Finally, a detailed analysis of trends in children's expenditures from 1960 to 2010, by category and major program, is provided in table 2. It shows, for example, that health spending has grown from 0 to 20 percent of total expenditures on children, while refundable tax credits have grown from 0 to 17 percent. On the other hand, the dependent exemption has fallen from 69 to 8 percent and income security has fallen from 22 to 12 percent of expenditures on children. And, while 50 years ago, total support to children was primarily in the form of tax reductions (70 percent) rather than outlays (30 percent), the split is now only 16 percent tax reductions and 84 percent outlays.

FIGURE 12 Means-Tested Spending on Children, 1960–2010



Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2012* and past years.

TABLE 2 Federal Expenditures on Children in Selected Years (billions of 2010 dollars and as percentage of total)[16]

	1960		1970		1980		1990		2000		2010	
	$	%	$	%	$	%	$	%	$	%	$	%
1. HEALTH	**$0.2**	**0%**	**$3.9**	**5%**	**$6.9**	**5%**	**$14.1**	**10%**	**$33.1**	**13%**	**$87.2**	**20%**
Medicaid	—		$2.9		$6.2		$13.3		$29.4		$74.5	
CHIP	—		—		—		—		$1.5		$7.1	
Medicaid — Vaccines for Children	—		—		—		—		$0.7		$3.5	
Other health[a]	$0.2		$1.0		$0.7		$0.8		$1.5		$2.2	
2. INCOME SECURITY	**$12.7**	**22%**	**$21.8**	**26%**	**$29.6**	**22%**	**$29.4**	**20%**	**$41.6**	**16%**	**$52.5**	**12%**
Social Security	$6.4		$11.5		$16.0		$13.2		$16.6		$21.2	
Temporary Assistance for Needy Families	$4.4		$7.4		$9.5		$11.4		$13.4		$14.7	
Supplemental Security Income	—		—		$0.8		$1.7		$6.0		$9.8	
Child Support Enforcement	—		—		$0.8		$1.6		$3.7		$3.9	
Veterans' Benefits	$1.6		$2.8		$2.2		$1.3		$1.8		$2.8	
Railroad Retirement	$0.3		$0.2		$0.1		$0.1		+		+	
3. EDUCATION	**$2.8**	**5%**	**$13.1**	**15%**	**$16.9**	**12%**	**$16.0**	**11%**	**$27.1**	**10%**	**$68.2**	**15%**
Education for the disadvantaged (Title I, Part A)	—		$6.2		$7.5		$6.9		$10.6		$19.5	
Special Education	—		$0.4		$1.9		$2.5		$6.1		$17.3	
State Fiscal Stabilization Fund	—		—		—		—		—		$16.8	
School Improvement	—		$1.3		$1.9		$1.8		$3.1		$5.3	
Education Jobs Fund	—		—		—		—		—		$1.2	
Impact Aid	$1.5		$3.0		$1.6		$1.2		$1.1		$1.2	
Dependents' schools abroad	$0.2		$0.6		$0.8		$1.3		$1.1		$1.2	
Innovation & Improvement	—		—		—		—		—		$1.0	
Vocational (and Adult) Education	$0.1		$0.9		$1.1		$1.1		$0.9		$1.0	
Other Education[b]	—		$0.7		$1.2		$1.2		$2.6		$3.7	
4. NUTRITION	**$1.4**	**2%**	**$3.1**	**4%**	**$20.3**	**15%**	**$21.9**	**15%**	**$27.7**	**11%**	**$56.7**	**13%**
Supplemental Nutrition Assistance Program/Food Stamps	—		$1.3		$10.6		$11.4		$12.0		$34.7	
Child Nutrition	$1.4		$1.8		$8.3		$7.6		$11.4		$16.3	
Special Supplemental Food (WIC)	—		—		$1.4		$2.8		$4.3		$5.7	
Commodity Supplemental Food	—		—		+		$0.1		+		+	
5. EARLY EDUCATION AND CARE	**$0.0**	**0%**	**$1.4**	**2%**	**$1.9**	**1%**	**$2.0**	**1%**	**$9.6**	**4%**	**$13.9**	**3%**
Head Start (including Early Head Start)	—		$1.4		$1.9		$2.0		$5.5		$8.0	
Child Care and Development Fund	—		—		—		—		$4.1		$5.9	
6. SOCIAL SERVICES	**$0.0**	**0%**	**$1.2**	**1%**	**$4.2**	**3%**	**$5.4**	**4%**	**$14.0**	**5%**	**$10.3**	**2%**
Foster Care	—		—		$0.7		$2.1		$5.4		$4.5	
Adoption Assistance	—		—		—		$0.2		$0.2		$2.4	
Social Services (Block Grant)	—		$1.2		$3.0		$2.2		$1.2		$1.1	
Other Social Services[c]	—		+		$0.5		$0.9		$2.9		$2.4	
7. HOUSING	**$0.0**	**0%**	**$0.0**	**0%**	**$2.5**	**2%**	**$5.8**	**4%**	**$7.5**	**3%**	**$9.5**	**2%**
Section 8 Low-Income Housing Assistance	—		—		$1.3		$4.2		$5.8		$7.1	
Low-Rent Public Housing	—		—		$0.5		$0.7		$1.0		$1.2	
Low Income Home Energy Assistance	—		—		—		$0.6		$0.4		$1.1	
Other Housing[d]	—		—		$0.7		$0.3		$0.2		$0.1	
8. TRAINING[e]	**$0.0**	**0%**	**$2.5**	**3%**	**$5.8**	**4%**	**$2.2**	**2%**	**$2.3**	**1%**	**$1.7**	**0%**
9. REFUNDABLE PORTIONS OF TAX CREDITS	**$0.0**	**0%**	**$0.0**	**0%**	**$2.8**	**2%**	**$6.3**	**4%**	**$30.9**	**12%**	**$74.5**	**17%**
Child Tax Credit (refundable portion)	—		—		—		—		$1.0		$22.7	
Earned Income Tax Credit (refundable portion)	—		—		$2.8		$6.3		$29.9		$50.4	
Other Outlays Associated with Tax Provisions[f]	—		—		—		—		—		$1.4	
10. TAX EXPENDITURES	**$0.6**	**1%**	**$1.0**	**1%**	**$3.3**	**2%**	**$10.2**	**7%**	**$35.5**	**13%**	**$35.4**	**8%**
Child tax credit (non-refundable portion)	—		—		—		—		$24.0		$23.0	
Earned Income Tax Credit (non-refundable portion)	—		—		$1.6		$2.6		$5.3		$4.5	
Dependent Care Credit	—		—		—		$5.8		$2.9		$3.4	
Exclusion of Employer-Provided Child Care	—		—		—		$0.4		$0.8		$1.2	
Other Tax Credits/Exemptions[g]	$0.6		$1.0		$1.7		$1.4		$2.4		$3.3	
11. DEPENDENT EXEMPTION	**$38.7**	**69%**	**$36.9**	**43%**	**$41.2**	**30%**	**$32.7**	**22%**	**$38.8**	**15%**	**$35.2**	**8%**
TOTAL EXPENDITURES ON CHILDREN	**$56.3**	**100%**	**$84.9**	**100%**	**$135.4**	**100%**	**$145.9**	**100%**	**$263.8**	**100%**	**$445.2**	**100%**
OUTLAYS SUBTOTAL (1-9)	**$17.0**	**30%**	**$47.1**	**55%**	**$90.8**	**67%**	**$103.1**	**71%**	**$193.8**	**73%**	**$374.4**	**84%**
TAX EXPENDITURES SUBTOTAL (10-11)	**$39.4**	**70%**	**$37.9**	**45%**	**$44.5**	**33%**	**$42.8**	**29%**	**$74.3**	**28%**	**$70.7**	**16%**

Source: The Urban Institute and The Brookings Institution, 2010. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2011* and past years.
Note: See table 1 for list of programs included in other health, other education, and so on (a-g).

future trends, 2011–2020

Under current policies, federal spending on children is projected to fall over the next several years, whether measured in real dollars, as a share of the federal budget, or as a share of the economy. The decline in spending stems partly from the fading effects of the American Recovery and Reinvestment Act but goes considerably beyond that factor. Overall spending is projected to increase significantly in real dollars, but only in certain areas—leaving a substantial squeeze on other federal spending, including spending on children. Our projections are largely based on the Congressional Budget Office's March 2011 baseline and thus do *not* incorporate the spending cuts enacted in spring 2011 nor any further proposals to reduce federal spending. If enacted, some of these proposals would reduce federal spending on children below the levels discussed here, although long-term reductions in interest costs would eventually free up some future resources.

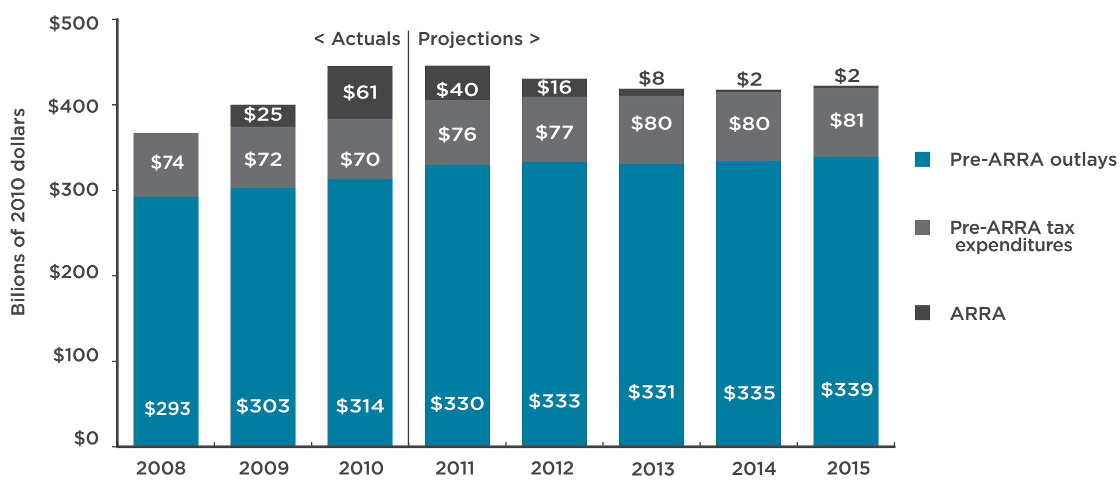
PROJECTED EXPENDITURES ON CHILDREN, 2011-2020

The Kids' Share analysis tracks outlays, which occur some months or years after grants are awarded. As a result, our projections include outlays from the American Recovery and Reinvestment Act, even though most programs receiving ARRA funding have already exhausted their funds available for new obligations. Expenditures on children resulting from ARRA reached a peak of $61 billion in 2010, with $40 billion in expenditures expected in 2011 and much lower levels in subsequent years (figure 13). The $40 billion in 2011 is primarily driven by the EITC and CTC expansions (as people collect tax refunds in 2011 based on 2010 income), higher SNAP benefits, three months of the higher Medicaid match rate, and the residual outlay effects of funds appropriated in 2009 but still being drawn down.[17] By 2012, most of the ARRA appropriated funds will be largely spent down, though there will still be substantial outlays under the State Fiscal Stabilization Fund (including the Race to the Top) and Title I/education for the disadvantaged. Otherwise, the largest lingering outyear effects of ARRA reflect the increase in SNAP benefits, which is scheduled to end in 2014, and two school bond provisions, which have expenditure effects of nearly $2 billion annually for some time.

As the temporary boost in spending under ARRA comes to an end, federal spending on children is projected to fall. In the absence of legislative action, CBO baseline projections suggest that federal outlays on children will fall by 9 percent between 2010 and 2015 (from $374 billion to $339 billion in inflation-adjusted dollars). Only once in the last half-century was there a similar decline, when real outlays on children fell by 7 percent between 1980 and 1985. While the decline in outlays will be partially offset by a modest rise in the dollar value of tax breaks for families with children, total expenditures on children also are projected to fall over the next five years (from $445 billion to $422 billion). These projections do not incorporate the spending cuts enacted in the spring of 2011 nor any further proposals to reduce federal spending.

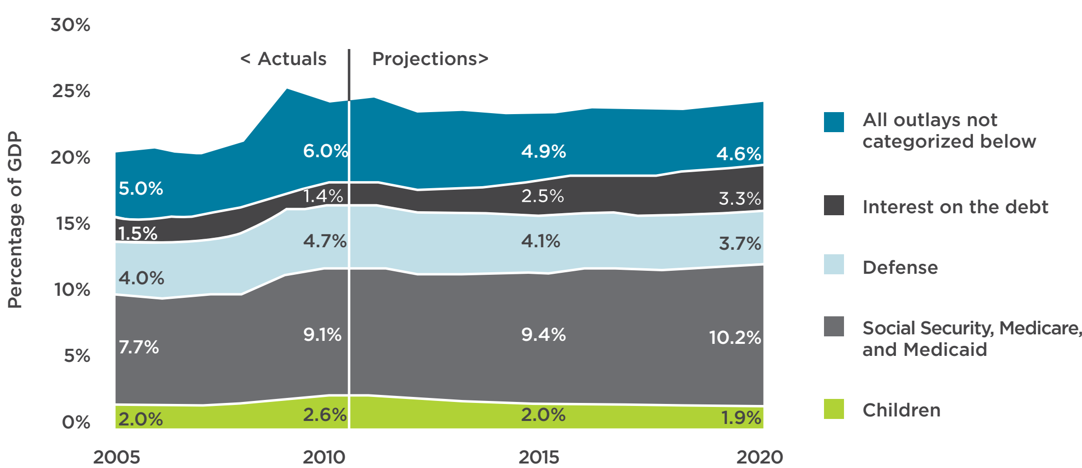
Looking at year-to-year projections and extending the period of projection to 2020, the sharpest decline in children's funding will be between 2011 and 2012, when the lingering effects of ARRA dissipate. Total outlays on children will continue to fall through 2014, and then slowly rise in 2015–20, driven by projected increases in children's health spending through Medicaid and the children's share of the new health insurance subsides under the Patient Protection and Affordable Care Act of 2010. Even with this small rise, however, projected outlays on children will be lower in 2020 than 2010. Children's spending is projected to decline even more sharply as a share of the economy, from 2.6 percent to 1.9 percent between 2010 and 2020 (figure 14). Under these projections, the percentage of the economy allocated to federal investments in children will be lower in 2020 than it was in 2005, before the recession.

FIGURE 13 Actual and Projected Expenditures on Children, 2008–15



Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2012* and previous years, CBO projections, and Urban-Brookings Tax Policy Center Microsimulation Model projections.

FIGURE 14 Actual and Projected Outlays on Children and Other Major Items in the Federal Budget, 2005–20



Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2012* and previous years and CBO projections. Note: Social Security, Medicare, and Medicaid excludes spending already captured as children's spending.

These declines in spending on children occur under CBO baseline projections that assume that the federal budget shrinks slightly relative to the economy over the next five years, but then expands back over the next five years (moving from 24 percent of GDP in 2010 to 23 percent in 2015 and back to 24 percent in 2020). An initial drop from the peak levels of spending during the recession is overcome by long-term structural budgetary forces that are driving up spending. In contrast to the projected decline in spending on children, spending on the elderly and disabled is projected to rise steadily. The nonchild portions of Medicare, Medicaid, and Social Security are projected to increase from 9.1 to 10.2 percent of GDP by 2020. This growth stems from several factors, including a large increase in the number and share of the population that is elderly as the baby boom generation ages (the baby boomers began retiring in 2008) and continued rapid growth in health care costs, even after incorporating the estimated effects of health care reform.

The strong growth in the big three entitlement programs places upward pressure on total governmental outlays, which far outpace federal revenues in every year of the projection period. As the national debt continues to grow, interest payments are projected to rise dramatically, more than doubling from 1.4 percent of GDP in 2010 to 3.3 percent in 2020. Under current policies, spending on interest payments on the debt will exceed spending on children between 2014 and 2020 and by larger amounts each year.

With declining spending on children and rising spending overall, the share of the federal budget spent on children is projected to fall considerably, from 11 to 8 percent, assuming no change in policy or law. Put another way, although significant permanent growth in the budget is scheduled under current policies, children do not share in that growth.

As an additional comparison, consider the following breakdown: CBO projects that outlays in 2020 will be nearly $1.1 trillion higher than outlays in 2010 ($4.6 trillion compared with $3.5 trillion). Nearly three-fifths (58 percent) of the anticipated increases in federal spending will be used for the automatic growth in Medicare, Medicaid, and Social Security. Growing interest payments on the national debt consume another two-fifths (41 percent). Together, the escalating costs of the three largest entitlements and interest payments consume more than 98 percent of the anticipated growth in spending between today and 10 years from now, leaving less than 2 percent for any increased spending on children, defense, and all other areas of the budget (table 3).

TABLE 3 Share of Projected Growth in Federal Outlays from 2010 to 2020 Going to Children and Other Major Budget Item

Major budget items	Difference between 2010 outlays and projected 2020 outlays (billions)	Share of growth in outlays
Social Security, Medicare, and Medicaid	$635	58%
Interest on the debt	$444	41%
Defense	$23	2%
Children	-$15	-1%
All other outlays	$10	1%
TOTAL GROWTH	**$1,096**	**100%**

Source: The Urban Institute and The Brookings Institution, 2011. Authors' estimates based on data from the *Budget of the U.S. Government Fiscal Year 2012* and CBO projections.
Notes: Numbers may not sum to totals because of rounding. Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending.

How will children's programs—and other priorities, ranging from defense to banking, the environment, and infrastructure—fare over the next decade, if payments on the debt, Medicare, Medicaid, and Social Security are projected to be nearly $1.1 trillion higher in 2020 than in 2010? With only some of this $1.1 trillion coming in automatically with higher revenues as the economy expands, where will the other funds come from? There are too many unknowns to state with certainty, but the future for children's spending looks bleak, absent significant reforms.

No one wants to spend two-fifths of the federal budget on interest payments on the debt, and policymakers are beginning to grapple with the challenging policy choices that must be made if the budget is to be brought under control. These choices include successfully controlling the rate of increase in health care costs, increasing taxes to pay for higher levels of spending, reforming entitlement spending for the elderly, and cutting spending significantly in the rest of the budget, including defense, to avoid a future of ever-higher budget deficits and interest payments. The design of these reforms will greatly affect children, a group threatened by the broad budgetary squeeze but also directly affected by spending on certain entitlement programs (e.g., Medicaid, Social Security, and SNAP), spending through nondefense discretionary appropriations (e.g., education programs, Head Start), and supports through the tax code (e.g., the tax credits and the dependent exemption).

COMPOSITION OF CHILDREN'S EXPENDITURES IN 2005, 2010, 2015, AND 2020

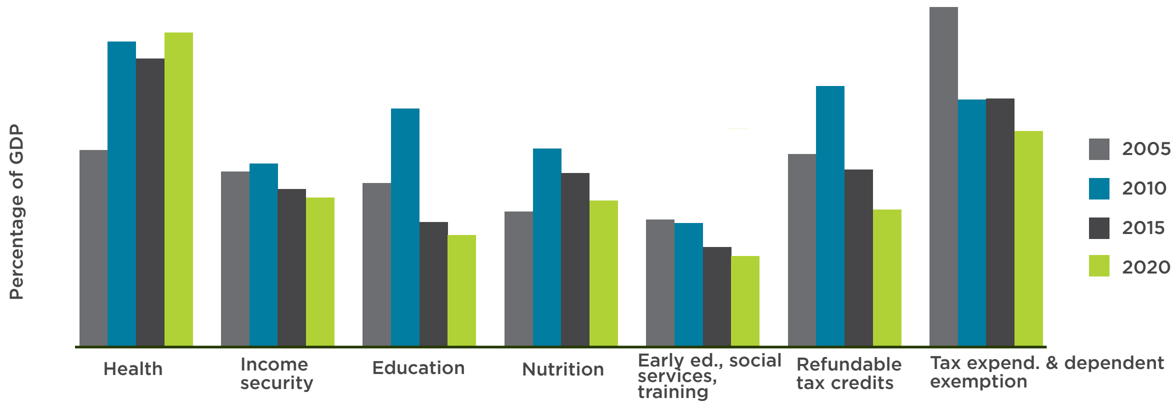
As discussed in the previous section, real outlays on children are projected to decline between 2010 and 2020, with the sharpest decline in the next few years. Total expenditures on children, including tax reductions, are projected to decline more modestly but following a similar pattern. Specifically, total expenditures are projected to fall from $445 billion to $422 billion over the first half of the decade, and then rise slightly, ending the decade at $441 billion, under current policies.

Policies do not stay constant, and so our 10-year projections of children's spending are inherently uncertain, particularly when we move from total expenditures to expenditures by category, as shown in figure 15. Even so, the projections provide a baseline by which to consider the path before us.

Health, a fast growing category for which children get a modest share, is the only area where children's expenditures are scheduled to be higher in 2020 than in 2010. Most of the increase occurs after 2015, when the post-recession declines in the number of children expected to be eligible for Medicaid is overtaken by increased health care costs. Implementation of the new health insurance exchanges enacted under the Patient Protection and Affordable Care Act also produce modest increases in children's health spending during the latter half of the decade. These health projections are, of course, subject to considerable uncertainty, given the difficulty of projecting the effects of the Affordable Care Act.

Expenditures in all other categories are projected to decline, compared with not just 2010, but, in most cases, 2005. Over the next decade, the projected declines are sharpest in tax credits and education. The child credit is not adjusted for inflation over time, meaning a substantial compound cut in its value over many years. There are no mandatory or entitlement spending programs in elementary and secondary education, except for the new and temporary Education Jobs program, which is projected to have outlays in 2010–12. Apart from that program, education spending on children is discretionary and subject to annual struggles to maintain appropriation levels. Children's programs that face annual appropriations may be particularly vulnerable to future cuts as policymakers face a grim budget outlook.

FIGURE 15 Expenditures on Children by Category, as a Percentage of GDP, in 2005, 2010, 2015, and 2020



	Health	Income security	Education	Nutrition	Early ed., social services, training	Refundable tax credits	Tax expend. & dependent exemption
2005	0.39%	0.35%	0.32%	0.27%	0.25%	0.38%	0.67%
2010	0.60%	0.36%	0.47%	0.39%	0.24%	0.51%	0.49%
2015	0.57%	0.31%	0.25%	0.34%	0.20%	0.35%	0.49%
2020	0.62%	0.29%	0.22%	0.29%	0.18%	0.27%	0.43%

Source: The Urban Institute and The Brookings Institution, 2011. Authors' projections based on the *Budget of the U.S. Government Fiscal Year 2012*, CBO's Budget and Economic Outlook, 2011–21, and Urban-Brookings Tax Policy Center Microsimulation Model.

conclusion

Federal expenditures, both in outlays and in tax expenditures, reflect priorities. In 2010, federal expenditures rose overall as policymakers attempted to mitigate resource shocks felt during the recession. Children received a higher share both in dollars and in percentage terms of total federal expenditures in 2010 compared with pre-recession years in the 2000s. It is unclear if total public expenditures on children maintained pre-recession levels, however, as increases in federal expenditures may not have kept pace with declines in state and local expenditures. Updated data on state and local expenditures and further analysis is needed to understand the dynamic interaction between federal, state, and local expenditures.

As ARRA provisions expire and as steadily rising spending on interest payments and health and retirement programs squeezes the rest of the federal budget, spending on children is expected to fall. Only once in the past 50 years has spending on children declined as much as it is projected to decline in the next five years. Unless priorities shift, children are not expected to benefit from any of the projected growth in outlays over the next decade.

The future for children's spending is particularly difficult to predict this year, given current policy debates about federal spending and revenues. Actions taken to address the deficit could have large impacts on children's programs. Budgetary reforms that lead to interest savings down the road could free up resources for children in the long run, but most reforms contain significant spending reductions in the immediate future, putting further downward pressure on children below the levels projected here.

Investing in children remains essential for improving economic stability and growth. Any plans to curtail spending, increase taxes, or redesign programs to be more efficient will need to consider the long-term consequences for children, the next generation of leaders, workers, parents and citizens.

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For a complete listing of references and data sources used, see the separate Kids' Share Data Appendix and its reference section, available online at http://www.urban.org/url.cfm?ID=412336.

notes

[1] See Isaacs (2010) and Isaacs and Lovell (2010).

[2] The earlier reports include Isaacs et al. (2010), Isaacs et al. (2009), Carasso et al. (2008), Carasso, Steuerle, and Reynolds (2007), as well as Clark et al. (2000). The children's budget reports have been expanded to include analyses of specific age groups, including infants and toddlers (Macomber et al. 2008), prekindergarteners and kindergarteners (Kent et al. 2009), and elementary-age children (Vericker et al. 2009). For an overview of these analyses by age break, see *Public Investment in Children's Early and Elementary Years* (Macomber et al. 2009). Two additional reports will be released shortly, one focusing on health expenditures on children, and one examining federal expenditures on children by level of family income.

[3] The *Data Appendix to Kids' Share 2011* is available at http://www.urban.org/url.cfm?ID=412336.

[4] Some states do increase unemployment benefits for families with children through a dependent benefit. As explained in a supplemental analysis found in the textbox on page 10, our ballpark estimates is that about 1 percent of all unemployment benefits might be reclassified as spending on children, amounting to $1.6 billion in 2010 and considerably less in years with lower unemployment.

[5] The two estimates, for example, use similar definitions of children (as those under 19), and the Rockefeller Institute researchers included the state earned income tax credit, in part to be consistent with the federal analysis. However, much of the state and local expenditure data cover a July–June rather than an October–September fiscal year. Moreover, because of the challenge of collecting data across 50 states, the Rockefeller report focuses on only a dozen major programs, including elementary and secondary education, state programs associated with major federal programs (Medicaid, SCHIP, Maternal and Child Health Bureau, TANF, child support enforcement, child care, child welfare, etc.), and state earned income tax credits.

[6] To calculate the children's share of the tax expenditure budget, we first have to determine a total tax expenditure budget. To do this we sum up OMB's estimates of tax provisions for individuals and corporations, although such provisions are not strictly additive because of interaction effects. Tax expenditures identified by OMB totaled approximately $1.05 trillion in 2010. To this we add $35 billion ($0.35 trillion) for the dependent exemption, which OMB does not classify as a special tax provision resulting in a tax expenditure but instead views as part of the overall tax structure. We do include the dependent exemption in our analyses of tax expenditures.

[7] The ARRA estimates shown in table 1 may differ from published estimates because they are the estimates for 2010 only, not counting outlays that already occurred in 2009, may still occur in 2011, or may trickle out in 2012–19. Also, we have estimated the *children's* share of ARRA spending, which is less than total ARRA spending for many programs. Expenditures on programs and tax provisions of less than $1 billion are included in the category totals, as detailed in the notes to table 1.

[8] The state estimate by researchers at the Rockefeller Institute does include the value of state earned income tax credit in states that have such credits. Recall that the bulk of the federal earned income tax credit (the refundable portion) is included in the federal estimate. See footnote 5 for more on differences between the state/local and federal estimates.

[9] See Macomber et al. (2010). The proportion of funding provided by the federal versus state and local governments also varies significantly by age, ranging in 2004 from 77 percent federal for infants and toddlers to 27 percent federal for those age 6 to 11.

[10] The estimate of elderly spending is not as comprehensive as the estimate of spending on children and thus may be conservative. The federal spending includes five major federal programs (Social Security, Medicare, Medicaid, SSI, and SNAP) and a rough estimate of spending on a dozen other programs based on CBO estimates of federal spending on the elderly in 2000 inflated to 2008. The state estimate is based on elderly spending on Medicaid and state supplementation of SSI payments, ignoring any other small sources of state spending on the elderly.

[11] See National Association of State Budget Officers (2010).

[12] Our analysis of employment in the local public education sector was inspired by analyses conducted by the Rockefeller Institute (Boyden and Dadayan 2010). We thank Lucy Dadyan for providing us with copies of the BLS data series used to project local public-sector employment.

[13] For example, a cut in tax rates from 28 to 25 percent would reduce the value of a $3,500 exemption from $980 to $785, thereby reducing the tax advantage of being a taxpayer with a child (relative to taxes for childless taxpayers) and, thus, child-related tax expenditures. This does not mean, however, that families with children were paying higher taxes than before the tax cut, just higher taxes relative to childless taxpayers.

[14] Information on how we classified each program by eligibility limitation (means-tested or not), as well as benefit type (cash vs. in-kind) and spending type (mandatory vs. discretionary), is provided in the data appendix.

[15] "Kaiser Health Facts," http://www.statehealthfacts.org/comparereport.jsp?rep=84&cat=4.

[16] An earlier version of this table, published in last year's *Kids' Share* report, Isaacs et al. (2010), presented the figures for 1960-2000 in nominal dollars. This table has been corrected to show all figures in real (2010) dollars.

[17] Legislation enacted subsequent to ARRA, including the additional six months of enhanced match for Medicaid through June 2011 and the extension of the EITC expansion in December 2010, are not classified as ARRA effects, following the treatment of these extensions by CBO.

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